Mission

We help credit unions achieve success by providing collaborative solutions that support their business needs.

Vision

Credit unions will be the financial institutions of choice for Albertans.

Values

Empowerment: Raise the bar. Own your future.

Responsibility: Being dependable today and tomorrow.

Cooperative: Working together to make a difference.

Customer Service: Being there because you matter.

ALISON'S MESSAGE

2013 marked 75 years of Alberta credit unions offering a valuable banking alternative and earning the trust of Albertans. From our humble beginnings in 1938, the Alberta credit union system has grown into an industry worth over $20 billion serving members in more than 200 branches throughout the province. And over these 75 years we have seen constant transformation. We have been challenged to consistently respond to an environment not always within our control. Changing economic, regulatory, technological and competitive landscapes and the evolving demands of newer demographics have become the new norm. For credit unions, this means today we must constantly look for ways to keep pace, so that tomorrow credit unions are the financial institutions of choice. Throughout 75 years of change, one thing has remained the same, the credit union spirit. We have and always will pride ourselves on the credit union difference, and we should – credit unions *are* different and so are our members.

Alberta Central is proud of our member credit unions and our long history of serving Alberta's credit union system, promoting the cooperative difference that makes our system a successful

alternative to other financial institutions. In 2013, the board of directors continued to support the organization's efforts in achieving its strategic plan. While Alberta Central had strong results in several strategic priorities, our most remarkable accomplishment is the organization's extensive cultural transformation. Recognizing the critical need for a culture shift to support our mission and vision, new core values were developed and a corporate restructuring was completed. This represented Alberta Central's commitment to be a dynamic and proactive provincial support organization understanding and anticipating credit union challenges and providing the solutions they will need.

On behalf of the board, I would like thank all Alberta Central employees for their ongoing dedication to the support of the growth and competitiveness of Alberta credit unions. We are all looking forward to another 75 years of credit union excellence.

Alison Starke
Chair, Board of Directors

GRAHAM'S MESSAGE

In 2013, credit unions once again faced challenges. Continued struggles in the global economy, ongoing regulatory and compliance developments, non-traditional banking competition, changing demographics and the importance of generating income and increasing market share, were top of mind for credit unions.

Solid Progress Made on 2013 Strategic Priorities

For Alberta Central, the focus in 2013 was to build momentum around our mission and vision statements created in 2012. These new statements guided the development of our 2013-2015 strategic plan that demonstrates to credit unions our commitment to becoming even more focused at responding more efficiently and proactively to credit union needs. Over the course of 2013 a great deal of effort was made to ensure progress on a variety of initiatives outlined in our strategic plan. The following highlights notable accomplishments in 2013.

Credit Union Networks Developed

In 2013, seven credit union networks were established as collaborative forums for discussing issues and business priorities critical to the system, exchanging best practices, identifying potential support opportunities and sharing information with Alberta Central. These networks will offer direct feedback from credit unions about issues that impact them allowing Alberta Central to develop appropriate responses and solutions.

CEO Payments Strategy Task Force Created

To provide forward-looking leadership in the ever-changing payments environment, the Canadian credit union system formed the CEO Payments Strategy Committee in late 2012, composed of CEOs and management from provincial centrals, Credit Union Central of Canada and the large credit union group. The committee has worked to deepen its understanding of opportunities and challenges in the payments landscape, including credit union payments economics, identifying potential revenue generation and cost reduction opportunities and determining the potential areas of investment for credit unions and provincial centrals to adopt emerging payments solutions. The group's objective is to develop a clear payments strategy that supports the long-term position of credit unions in the central payments space. Areas of potential for strategic focus that have been identified include: mobile payments, operational efficiency in payments, small-mid sized business payments solutions, credit

card solutions and ATM management. Early in 2014, the group will work to finalize a payments strategy and begin to implement it through tactical projects which will be undertaken in 2014.

Organizational Restructure and New Core Values

To better enable Alberta Central's success in delivering its vision, mission and strategic priorities the organization underwent a corporate review to determine if the right structure, processes and culture were in place to ensure effective delivery of our strategy. The organizational review resulted in structural changes at the senior leadership level with new positions created to better support our business model; a culture change initiative that defined the shift in core values required to support us becoming more entrepreneurial and dynamic; and an initial review of our key processes to ensure we are managing our business effectively and using our resources in the best way to maximize productivity and meet the needs of our credit unions.

75th Anniversary Celebrations

2013 marked the 75th anniversary of Alberta credit unions. This milestone presented a significant opportunity for credit unions to celebrate what they stand for: exceptional member service and commitment to the communities they serve. Alberta Central coordinated a system-wide celebration for all credit unions to voluntarily participate in. *Bringing Growth to Local Communities*, saw

credit unions and Alberta Central come together and plant 75 trees in three flood impacted communities in Alberta. In addition to this, Alberta Central used the 75th anniversary as an opportunity to create public awareness through traditional and social media campaigns of the Alberta credit union system and the benefit of becoming a member.

Branch Remote Deposit Capture

Remote deposit capture is one of the most important payments developments the banking industry has seen in years. The payments landscape is changing – with the switch from processing paper items to images being a key step to introducing efficiencies and enhanced service capabilities to the payments system. The credit union system must act quickly and cooperatively to avoid being the last financial system to move away from the paper-based payments platform in order to stay competitive and avoid significant cost increases. To ensure the credit union system is at the forefront of payments technology, CUPS Payment Services, Manitoba Central, and Central 1, have combined resources to develop a branch remote deposit capture service for credit unions. Through this partnership, the credit union system will benefit from the shared cost of the development of this service and this migration will provide significant benefits for the credit union system.

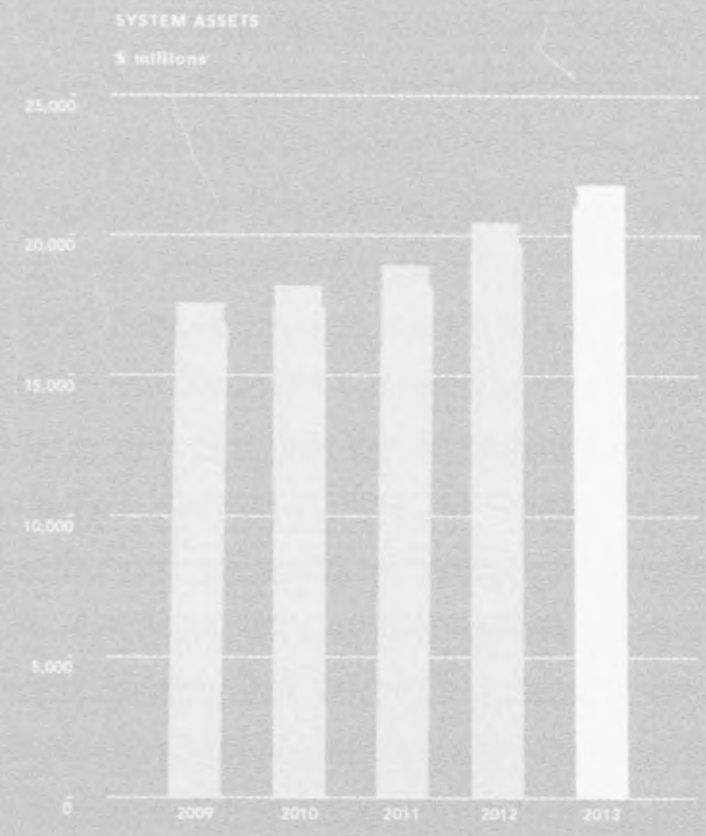
Looking Ahead

Moving forward, Alberta Central is committed to successfully executing its strategic priorities. Our 2014 business plan and budget represents year two of Alberta Central's 2013-2015 strategic plan and outlines our response to the challenges and opportunities we face so we can remain relevant and continue to provide value to our member credit unions. Four strategic priorities – Think Like a Credit Union, Deliver Timely Results, Provide Payments Technology Leadership, and Engage Our People – were defined in the first year of the strategic plan and will continue to guide us through 2014.

I would like to thank all employees first and foremost, for their dedication and hard work. I'd also like to thank the board of directors for their support. I believe we are just getting started and I look forward to continuing to evolve as an organization and a system.

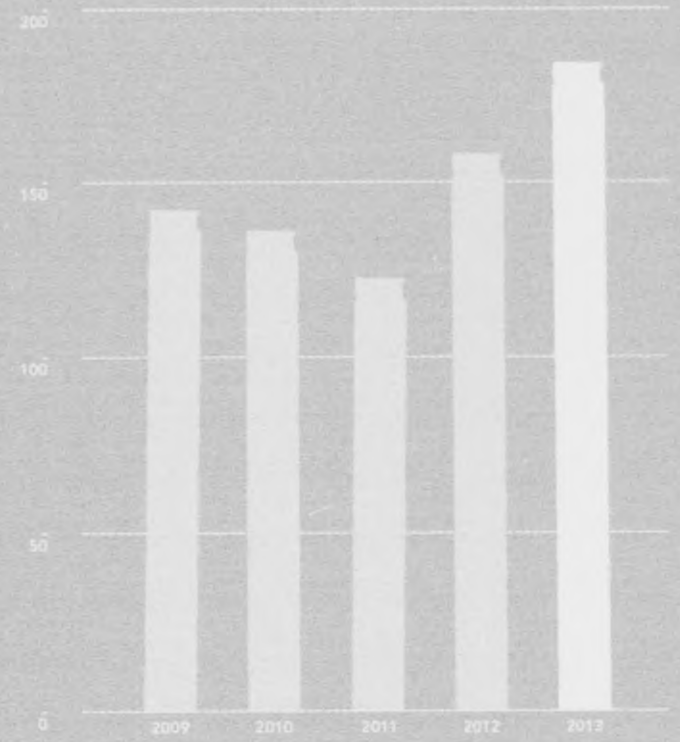
Graham Wetter
President and CEO

SYSTEM HIGHLIGHTS



SYSTEM EARNINGS[1]

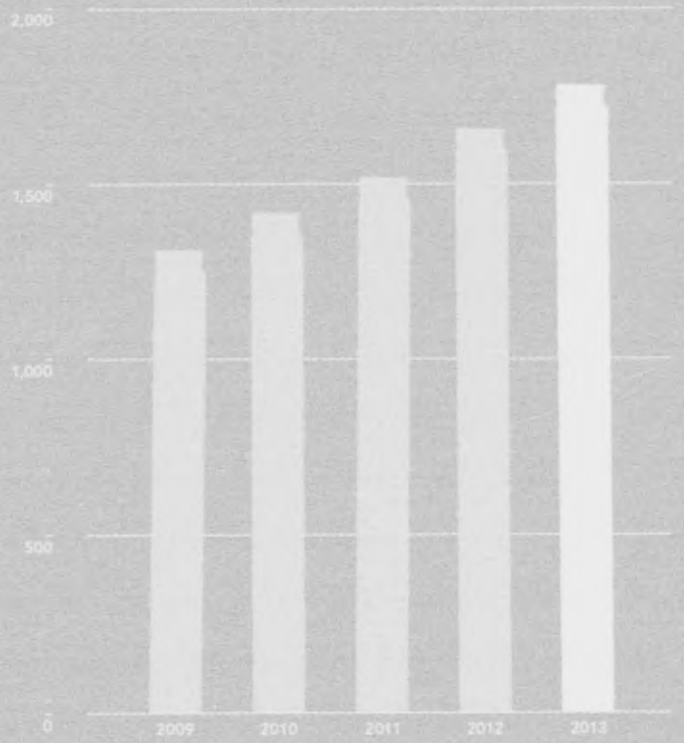
$ millions



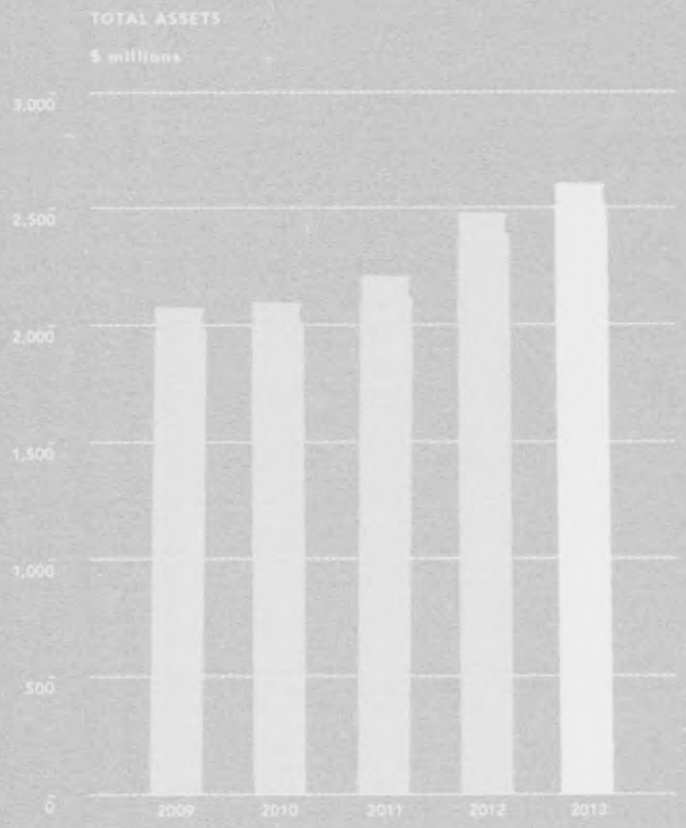
[1] Net income before patronage dividends and taxes

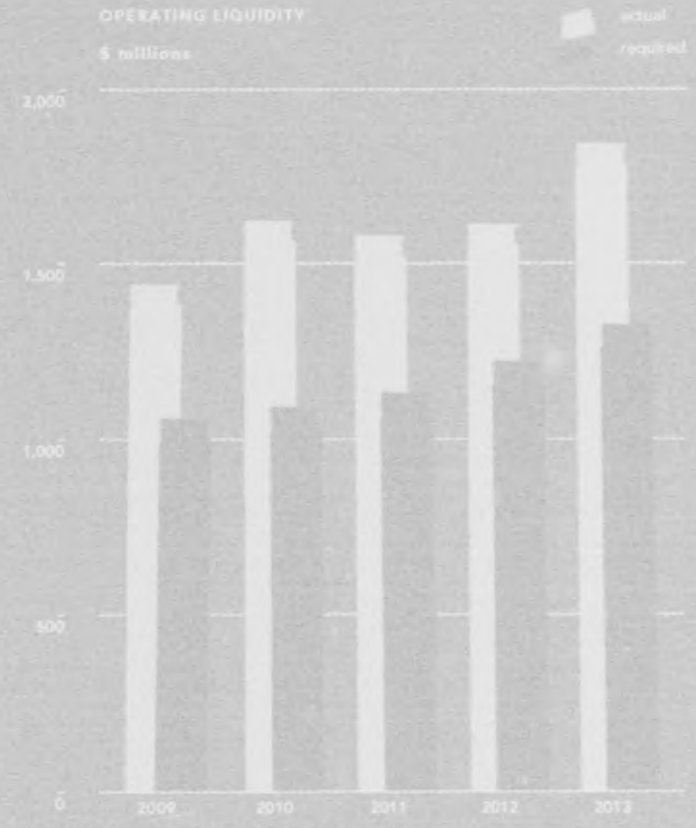
SYSTEM EQUITY

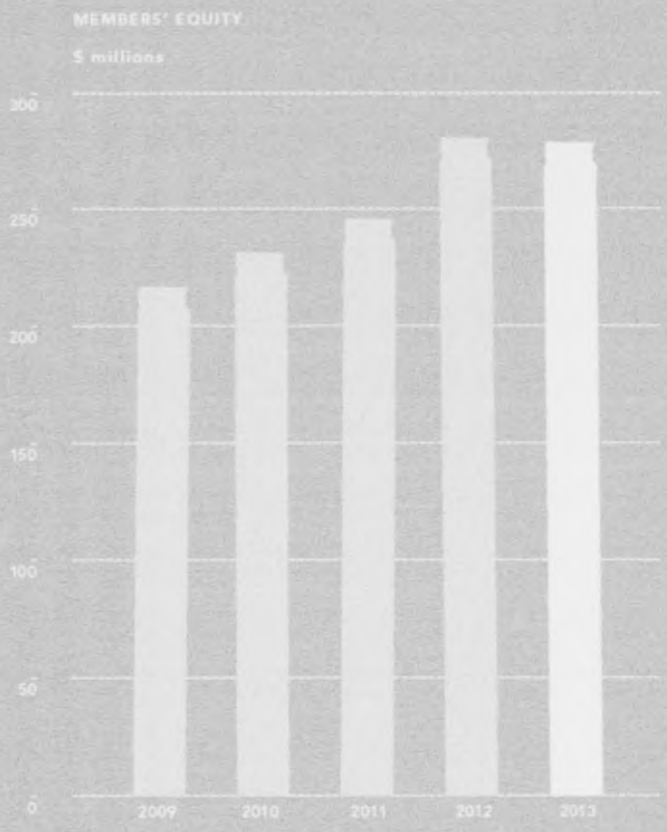
$ millions



ALBERTA CENTRAL HIGHLIGHTS







MD&A

Overview

This section of the annual report, which provides management's discussion and analysis (MD&A) of the results of operations and financial condition of Alberta Central, should be read in conjunction with the audited financial statements as at and for the year ended December 31, 2013. The financial statements are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS). This MD&A is dated February 21, 2014 and provides comments regarding Alberta Central's core businesses, financial performance, economic outlook and risk management.

Caution Regarding Forward-Looking Statements

This annual report includes forward-looking statements. By their very nature, such forward-looking statements require management to make assumptions and involve inherent risks and uncertainties. A number of important factors, many of which are beyond management's control, could cause actual future results, conditions, actions or events to differ materially from the targets, projections, expectations, estimates or intentions expressed in forward-looking statements. These factors include, but are not limited to, changes in general economic conditions in Canada, particularly those in Alberta, including: interest rates, currency values and liquidity conditions; the effects of conditions in the credit union system which Alberta Central serves; legislative or regulatory developments; changes in accounting standards or policies and Alberta Central's success in anticipating and managing the risks inherent in these factors. Readers are cautioned that the foregoing list is not exhaustive. Undue reliance should not be placed on forward-looking statements as actual results may differ materially from expectations. Alberta Central does not undertake to update any forward-looking statements contained in this annual report.

Core Businesses

In 2013, Alberta Central embarked on the foundational year of a three year strategic plan to anticipate and better serve credit union needs in the face of rapidly advancing technological changes and increasing regulatory compliance oversight and complexity while providing a stable and reliable resource to credit unions in its existing core business offerings in liquidity, payments and trade services.

As the liquidity provider and trade association for the system, Alberta Central and its joint ventures provide leadership and support to credit unions through a variety of products and services. Alberta Central's treasury and lending departments work closely together to manage the statutory and excess liquidity deposits and demand and term funding requirements for Alberta credit unions. They are responsible for maintaining a stable earning asset base while providing for the borrowing needs of Alberta credit unions and their members. Alberta Central's commercial paper program which relies on an R-1 (low) credit rating by DBRS[1] provides access to capital markets. While its core treasury and lending services are designed to meet the financing, liquidity and growth needs of the system, Alberta Central also provides foreign exchange, derivative and syndicated loan program services to Alberta credit unions. As the trade organization for Alberta credit unions, Alberta Central provides support in the areas of research and communications enabling credit unions to better respond to strategic issues and undertakes advocacy to represent the interests of Alberta credit unions with provincial regulators and government.

With a 50.0 percent ownership interest in the CUPS joint venture, Alberta Central provides leadership in payments technology and supports the payment processing, clearing and settlement operations for the Alberta credit union system. Operations include processing of paper-based deposits and clearings, cheque imaging, electronic document management and electronic payment services such as automated funds transfers and wire transfers. Alberta Central's participation in the earnings from this venture is based on the volume of Alberta credit union payment processing activity.

CUPS leads the Payments Technology Leadership strategy and directs research and development towards value-added services that enhance member experience and credit unions' ability to quickly bring to market new payment products and technologies. The importance of technology innovation is represented in CUPS' leadership of the image exchange, branch remote deposit capture and other electronic payment optimization projects.

Alberta Central's 31.4 percent interest in Celero Solutions (Celero) and Celero's 49.0 percent interest in Everlink Payment Services Inc. (Everlink), enables it to support information technology (IT) solutions and systems for credit unions.

Celero is a leading provider of IT solutions to financial institutions across Canada and is consistently ranked among the world's top financial technology companies on the annual FinTech 100 list. A full-capability IT service provider, Celero provides complete banking solutions, IT planning, systems integration, hosting, support, maintenance and professional services to meet the unique needs of financial institutions of all sizes and delivers world-class reliability through its Canadian-based data centres, offices and operations. Celero is unique in its depth of acquired core banking system conversion and technology support services for Canadian credit unions, which it offers to its clients located from British Columbia to Ontario.

[1] *May 29, 2013 Rating Report*

Everlink provides innovative payments solutions and services for credit unions, banks, and independent sales organizations across Canada. In addition to supplying best-in-breed technology infrastructure and payment network connectivity via the well-established payment network gateway, Everlink offers a diversified range of integrated payments solutions including automated teller machine (ATM) managed services, card issuance and management, fraud management, point-of-sale acquiring and professional services.

Alberta Central is governed under the Cooperative Credit Associations Act of Canada and the Credit Union Act of Alberta, and is regulated federally by the Office of the Superintendent of Financial Institutions (OSFI) and provincially by Alberta Treasury Board and Finance (Alberta TBF).

Economic Environment

The year 2013 marked another year of relatively low growth in the global economy. The most current data available from the International Monetary Fund (IMF) measured growth in the world's advanced economies at a rate of 1.3 percent in 2013 (compared to 1.4 percent in 2012) and growth in the developing economies at a rate of 4.7 percent (compared to 4.9 percent in 2012). In spite of the Bank of Canada (BoC) continuing to keep its target overnight rate at just 1.0 percent throughout the year, the most current data from the Conference Board of Canada (CBoC) indicates that growth in Canada's 2013 real Gross Domestic Product (GDP) roughly matched 2012 performance at 1.7 percent. The Canadian Consumer Price Index (CPI) remained within the BoC's inflation-control target range but came in below the 2.0 percent midpoint throughout the duration of 2013. The most current data available from the CBoC indicates that Alberta's real GDP in 2013 was 3.2 percent while wages increased by 4.0 percent and the unemployment rate continued to be among the lowest in Canada at 4.6 percent. 2013 also marked the first year that Alberta's population surpassed 4.0 million. The 3.2 percent growth in population was the combined result of record net migration (both international and interprovincial) and a record number of births.

2013 Financial Performance of the Alberta Credit Union System[2]

Based on the audited 2013 year-end figures (October 31, 2013), annual total asset growth among Alberta's credit unions was 6.6 percent. This growth exceeded the 5-year annual average of 5.6 percent but came in below the 10-year annual average of 9.2 percent. Annual loan growth was 8.2 percent which exceeded the 5-year annual average of 5.9 percent but came in below the 10-year annual average of 9.5 percent. Annual deposit growth was 6.4 percent which also exceeded the 5-year annual average of 5.5 percent but came in below the 10-year annual average of 9.1 percent. Net income before taxes and patronage dividends totaled 0.88 percent of average assets, exceeding the 5-year average of 0.79 percent but came in below the 10-year average of 0.94 percent.

[2] *Alberta credit union system financial information has been provided by the Credit Union Deposit Guarantee Corporation (CUDGC), the regulator of the provincial credit union system. Alberta Central has not verified the accuracy or completeness of this information. All financial information is based on a fiscal October 31 year end.*

ALBERTA CREDIT UNION SYSTEM – BALANCE SHEET HIGHLIGHTS

Year ended October 31, Source: CUDGC F&S Data

(thousands of dollars)	2013 $	2013 % Growth	2012 $	2012 % Growth
Total Loans	18,529,200	8.17%	17,129,747	6.11%
Residential mortgages	10,256,594	7.74%	9,519,522	6.75%
Commercial loans	5,577,841	11.73%	4,992,208	5.96%
Consumer loans	1,910,579	2.64%	1,861,454	2.03%
Agricultural loans	784,187	3.65%	756,563	10.32%
Total Assets	21,694,280	6.56%	20,358,267	7.95%
Total Member Deposits	19,699,105	6.42%	18,510,332	7.85%
Total Liabilities	19,916,926	6.46%	18,706,906	7.87%
Total Equity	1,778,354	7.69%	1,651,360	8.85%

ALBERTA CREDIT UNION SYSTEM – RESULTS OF OPERATIONS

Year ended October 31, Source: CUDGC F&S Data

	2013	2012
Average assets ($000's)	20,967,830	19,574,420
Financial margin ($000's)	575,625	539,128
(as a % of average assets)	2.75%	2.75%
Net income before taxes and patronage ($000's)	123,921	158,017
(as a % of average assets)	0.59%	0.81%

2013 Financial Performance of Alberta Central

Financial Overview[1]

Alberta Central's financial results for 2013, before increases in asset-backed commercial paper (ABCP), patronage dividends and taxes, were $10.5 million compared to $8.5 million in 2012. These results were the highest level of earnings in Alberta Central since 2008. Higher volumes of credit union lending augmented net financial income, while improved financial results from the Celero joint venture and a decrease in loan provisions for credit losses also contributed to the positive results.

Continued and significant improvements in the fair value of ABCP of $19.0 million in 2013, cumulatively totaling $64.0 million over the past four years, provided a boost to capital levels and enabled the payment of two patronage dividends to Alberta credit unions aggregating $45.0 million. Alberta Central's board declared additional distributions to credit unions in early 2014 (see Share Capital Dividends and Other Distributions).

Alberta Central's financial position and operating results are linked to the financial position and results of Alberta credit unions. Alberta Central's bylaws require Alberta credit unions to maintain liquidity deposits and share capital with Alberta Central of not less than nine percent of each credit union's liabilities (refer to Liquidity and Regulatory Capital). As a result, Alberta Central's balance sheet growth typically parallels the growth

[1] *2012 financial results have been restated to reflect changes in accounting policies as a result of amended IFRS standards, effective January 1, 2013 applied retrospectively.*

experienced in the Alberta credit union system. During 2013, the Alberta credit union system reported its strongest growth rate in loans over the past five years at 8.2 percent while deposit growth moderated slightly from 2012 levels at 6.4 percent.

ALBERTA CENTRAL – FINANCIAL PERFORMANCE

Year ended December 31

(thousands of dollars)	2013 $	2013 % Growth	2012 $
Total assets	2,591,366	5.0%	2,468,114
Total members' deposits	2,274,230	6.2%	2,142,415
Net interest income before provisions for credit losses	14,606	-2.4%	14,964
Net interest income, net of provisions for credit losses	14,041	30.2%	10,779
Net income before ABCP fair value adjustments, patronage dividends and taxes	10,523	24.0%	8,489

Net Interest Income

Net interest income at Alberta Central is influenced by system asset growth, system liquidity (credit union borrowing and business lending) and interest rates. While remaining strong, Alberta credit union system liquidity drew down during 2013 as credit union loan growth exceeded deposit growth and resulted in credit union borrowings from Alberta Central at various points throughout the year.

Alberta Central's holdings of short-term liquid securities are lower-yielding assets, and like its member credit unions, Alberta Central continued to experience financial margin compression throughout 2013 due to the flat yield curve and low interest rate environment. Commercial loan renewals and new business written in 2013 were advanced at a lower interest rate reflective of the current competitive market pricing. The decrease in yields driven by market conditions tempered the positive impact of credit union loan volumes and net interest income before provisions for credit losses decreased slightly from $15.0 million to $14.6 million.

ALBERTA CENTRAL – NET INTEREST INCOME

Year ended December 31

			2013			2012
(thousands of dollars)	$ Average Balances	$ Income/ (Expense)	% Yield	$ Average Balances	$ Income/ (Expense)	% Yield
Cash and securities	2,268,331	24,945	1.10%	2,309,816	25,793	1.12%
Credit union loans	86,236	2,016	2.34%	34,822	791	2.27%
Commercial and other loans	182,160	7,702	4.23%	163,567	8,936	4.87%
Other assets	15,001	–	–	18,275	–	–
	2,551,728	34,663	1.36%	2,546,080	35,520	1.40%
Members' deposits	2,228,658	(19,755)	(0.89%)	2,230,328	(20,221)	(0.91%)
Borrowings	30,919	(302)	(0.99%)	36,069	(335)	(0.93%)
Other liabilities	12,751	–	–	17,972	–	–
	2,272,328	(20,057)	(0.88%)	2,284,370	(20,556)	(0.90%)
Common share capital	209,606	(3,957)	(1.89%)	197,935	(3,825)	(1.93%)
Retained earnings and accumulated other comprehensive income	69,594	–	–	63,775	–	–
	279,200	(3,957)	(1.42%)	261,710	(3,825)	(1.46%)
	2,551,728	(24,014)	(0.94%)	2,546,080	(24,381)	(0.96%)
Return on assets						
Net interest income*		14,606	0.57%		14,964	0.59%

** Net interest income excluding loan provisions and AIRCP fair value adjustments*

Provision for Credit Losses

As a financial institution, Alberta Central is exposed to credit risk, primarily through its investment and lending activities. Although Alberta Central's non-credit union lending portfolio is concentrated in Alberta, credit risk exposure remains diversified across the industry sectors presented in the following table:

ALBERTA CENTRAL – NON-CREDIT UNION LENDING

Year ended December 31

		2013		2012
(thousands of dollars)	$	%	$	%
Office	33,798	22.3%	35,067	18.3%
Hospitality	40,287	21.4%	37,622	19.6%
Health care	22,448	11.9%	23,282	12.1%
Condominium construction	21,661	11.5%	25,842	13.5%
Land development	20,500	10.9%	19,365	10.1%
Apartment rental	9,600	5.1%	10,061	5.2%
Real estate – other	9,616	5.1%	22,575	11.8%
Industrial/warehouse	8,169	4.3%	7,384	3.9%
Technology	4,896	2.5%	5,710	3.0%
Retail	4,193	2.2%	1,728	0.9%
Finance and insurance	3,315	1.9%	3,067	1.6%
	188,243	100.0%	191,703	100.0%
Specific allowance	(17,347)		(16,522)	
Non specific allowance	(1,170)		(1,430)	
Total non-credit union lending, net	169,726		173,751	

Alberta Central remains committed to its loan syndication program and a number of loans were syndicated with credit unions during the year to redistribute liquidity within the system and provide participating credit unions with higher yielding assets. Average volumes and year-end balances were down only slightly from 2012 activity levels. The office, hospitality, retail, land development and industrial/warehouse sectors achieved growth in both dollar and percentage terms, which was offset by reduced lending in health care, condominium construction, technology and real estate – other. The distribution of loans within the finance and insurance, and apartment rental industry sectors remained relatively consistent with the prior year.

Alberta Central management regularly reviews its portfolio to identify indications of any impairment. Alberta Central maintains specific and non-specific loan loss provisions established as a result of reviews at an individual loan and loan portfolio level. Provisions are recorded to reduce the carrying amount of loans to their estimated realizable values.

While most of the loans within Alberta Central's commercial loan and mortgage portfolio have remained relatively resilient through the recent period of economic stress, the challenging economic conditions of the past few years have manifested in three commercial loans continuing to be or being designated as impaired at December 31, 2013. Provisions against principal of $0.5 million and interest of $0.3 million were recognized during the year on impaired loans.

Uncertainty remains regarding the fair value of these loans and the range of reasonable provisions for impairment could be considered fairly broad. Management has completed a best estimate of appropriate provisions based on information currently available.

The carrying value of these loans, net of provisions, is $9.3 million. Actual realization on the remaining carrying value of the loans could vary significantly, either positively or negatively, from these estimates.

A non-specific provision is established based on Alberta Central management's overall evaluation of risk in the commercial loan and mortgage portfolio in recognition of potential losses not specifically identified on an item-by-item basis. Since credit unions are Alberta Central's syndicate partner in all commercial loans, management determines the non-specific provision using a model based on delinquency rates in the credit union system combined with a qualitative assessment of changes in economic conditions and the changes in Alberta credit union system loan loss provisioning. With a general improvement in delinquency rates in the Alberta credit union system and an improving Alberta economy, Alberta Central's non-specific provision was reduced by $0.3 million during the year, to $1.2 million. The non-specific provision is seven basis points (bps) of the gross commercial loan portfolio compared to eight bps in the prior year.

Notes 2(d), 3(b) and 10 to the financial statements provide further details regarding specific and non-specific loan provisions.

Operating Revenues

In addition to its net interest income, Alberta Central earns operating revenues from its interest in the CUPS joint venture, complementary financial services, credit union member dues, ancillary services and various facilities, human resources and accounting services provided to its joint ventures. Operating revenues of $23.3 million were consistent with 2012 results.

Because Alberta Central has joint control of CUPS and has rights to the assets and obligations for the liabilities, the proportionate consolidation method is used to record Alberta Central's share of CUPS' operating results. As such, Alberta Central's share of both CUPS' total income and total expenses are recorded through Alberta Central's operating revenues and operating expenses. CUPS' net revenues were below 2012 levels, reflective of the continuation of declines in paper-based deposits and clearings volumes. Alberta Central's share of CUPS net revenues totaled $9.6 million compared to $9.7 million in 2012.

CUPS is making solid progress on a multi-year project that will result in branch remote deposit capture being implemented in all Alberta and Saskatchewan credit unions. This project builds upon the image exchange foundation which was implemented in late 2013 and allows for the digital transmission of cheque images between the provincial credit union centrals. The result of these two projects will ultimately end the need for physical transportation and centrally handled paper deposit and cheque processing, enabling efficiencies and image-based service offerings for credit unions.

Financial services operating revenues include revenue from complementary activities in the treasury and lending areas, such as foreign exchange, asset/liability management and commercial loan application fees. Also included are ancillary services such as manuals, credit union audit services, cash services and purchasing which are offered on a direct cost recovery basis. Revenues earned by Alberta Central's financial and ancillary services were relatively consistent with prior year results. Given credit unions' desire for additional services, Alberta Central will continue in 2014 to evaluate services that could be offered as dues programs or additional ancillary services as part of its Think Like a Credit Union strategic priority.

As a trade association for all Alberta credit unions, Alberta Central's role is to recognize where there is strength in shared action and to facilitate these opportunities. The trade function at Alberta Central provides leadership and strategic support, and undertakes advocacy to represent the interests of Alberta credit unions with provincial regulators and government. Dues related spending increases were limited to 1.4 percent and unspent 2013 dues of $0.5 million will be rebated to credit unions in 2014. Under Alberta Central's bylaws, a Dues Governance Task Force (DGTF) was struck in 2013 to review dues programs and funding mechanisms, and other matters as directed by the board. The DGTF will provide a preliminary reporting at the Alberta Central annual general meeting and will continue its work in 2014.

Operating Expenses

Operating expenses include those relating directly to Alberta Central and also Alberta Central's share of operating expenses in CUPS. Operating expenses, including personnel, property and equipment, administration and organization costs, totaled $26.9 million, up $1.8 million from the prior year.

Personnel costs relate to approximately 70 full-time equivalents (FTEs) in Alberta Central and Alberta Central's share of costs related to approximately 100 FTEs in CUPS. Personnel and related costs increased approximately $1.5 million from the prior year, inclusive of $0.7 million of corporate restructuring costs. A structure review was conducted in 2013 as the first phase of a broader organization review to define the organizational structure that will best enable Alberta Central to achieve its mission and vision. The organizational structure under Alberta Central's new strategic direction reflects fully dedicated roles at the chief officer level and supporting staff to ensure success and alignment to all strategic priorities designed to better serve credit unions. Resourcing under the new structure will allow for better support and leadership in payments technology and regulatory compliance, and enables Alberta Central to pull together cross functional teams to leverage opportunities that will make Alberta Central more customer-centric and responsive to credit union business needs. Having the organizational culture and engaged staff to achieve Alberta Central's new vision and mission is a core strategy and Alberta Central is committed to investing in employees. Alberta Central's 2014 Engage Our People strategic initiative will continue to work towards a culture that attracts, retains and develops inspired employees.

Operating expenses in property and equipment and organization (third party costs for dues-funded activities) decreased approximately $0.1 million and $0.2 million, respectively. The decrease in organization expenses was primarily driven by lower shared costs from the Cooperative EFT Development Association (CEDA), a mechanism to provide compliance

oversight and enable credit unions to participate in various card and electronic payments networks such as Interac and Visa Plus, and Cooperative Network Services Committee (CNSC) which provides advisory services to prairie credit unions regarding card services business strategies. Administration and other expenses increased $0.5 million and included professional fees incurred related to the organization review and increases in information technology costs attributable to the redesign and launch of Alberta Central's credit union focused external website, reflective of feedback received from an external communications audit.

Equity Earnings in Celero

Alberta Central's investment in Celero is equity accounted within the statement of income, and includes Celero's 49.0 percent equity interest in Everlink. During 2013, Celero continued to focus on delivering on its customer promise and broadening its professional services line of business while managing financial performance. Focused efforts on cost reductions enabled the joint venture to rebound from a weak first quarter to achieve break-even results in 2013 (excluding Everlink).

Alberta Central's share of Celero's (including Everlink) net income was $0.1 million in 2013, an improvement of $0.6 million from the loss of $0.5 million in 2012. Business plans and financial projections for Celero reflect profitable results for 2014 with continued growth of Celero's professional services line of business and focus on customer satisfaction.

Increase in Estimated Fair Value of ABCP

As outlined in Note 7 to the financial statements, at December 31, 2013 Alberta Central held non-bank and bank sponsored ABCP with a total face value of $188.2 million compared to $197.6 million in 2012. At the dates of acquisition, these short term investments were in compliance with Alberta Central's *Investment Policy* and were rated R-1 (high) by DBRS, the highest credit rating issued for commercial paper. As a result of the general credit crisis that occurred in 2007 and 2008, the ABCP suffered a liquidity disruption and the notes were restructured into longer term floating rate notes reflecting the maturity of the related underlying assets. The replacement notes are classified as held for trading financial assets and are carried at fair value as Alberta Central manages and evaluates performance of the group of ABCP investments together on a fair value basis using bid pricing.

The value of ABCP improved throughout 2013, rising $19.0 million (2012 – $32.0 million) for a total increase of $64.0 million since 2008. At December 31, 2013, the ABCP portfolio was valued at 88.9 percent of its face value, compared to 79.9 percent at the end of 2012. With enhanced capital levels resulting from the ABCP fair value increases, the board of directors declared patronage distributions to credit unions in 2013 and early 2014 (see Other Distributions). Management will continue to review the valuation of the notes on a quarterly basis and record fair value adjustments as appropriate under IFRS. As the valuation of ABCP is subject to market volatility, it is reasonably possible that changes in conditions in the near term could require a material change in the estimated fair value.

During 2013, ABCP earned interest income of $1.6 million (yield of 82 bps). Alberta Central received principal payments on the restructured notes of $9.4 million, bringing Alberta Central's total principal reductions since the restructuring to $56.7 million. Although some notes could mature earlier, the expected repayment date for the majority of Alberta Central's ABCP portfolio is January 2017. Improvements in ratings of ABCP continued in 2013, and over 90.0 percent of Alberta Central's ABCP is now rated BBB or higher.

ABCP investors were able to apply for their share of settlement funds that were collected from investment dealers who sold third party ABCP between July 24 and August 13, 2007. Alberta Central received $0.4 million in settlement funds in respect of two notes which were purchased within the eligible time frame. The receipt has been recorded as income within the increase in estimated fair value of ABCP.

The ABCP investments have been excluded from the liquidity calculations discussed later in this report to the extent they have a maturity date beyond one year. Alberta Central has operated, and continues to operate, within its legislated liquidity requirements.

ICAAP

Increased sophistication in capital markets and changes to regulation and accounting standards are requiring financial institutions to modify the way they manage capital. Management decisions regarding capital levels, capital composition, sources of capital and organizational risk appetite are integral to corporate strategy. Accordingly, financial institutions require a more cohesive and dynamic capital management process – a process driven by the assessment of the adequacy of the financial institution's capital relative to risk, as opposed to minimum regulatory capital requirements.

Under OSFI's E19 guideline, the *Internal Capital Adequacy Assessment Process (ICAAP) for Deposit-Taking Institutions*, requires an ICAAP as a sound business and financial practice for banks and trust companies. While OSFI's ICAAP requirements do not apply to cooperative liquidity providers such as Alberta Central, the development, approval and integration of a document similar to an ICAAP does form part of the Alberta TBF regulatory framework for Alberta Central.

Alberta Central has developed an ICAAP that identifies its risks and assesses the probability of these risks occurring; assesses how much capital a risk would require; assesses the impact of the business plan on capital levels, which includes performing stress testing and scenario analyses; and identifies the ranges of capital that should be held Alberta Central's ICAAP also incorporates a capital plan that Alberta Central uses to manage its capital.

Capital over and above regulatory minimums serves as a prudent measure to accommodate system growth, buffer market volatility and unexpected events and enable strategic initiatives. The ICAAP has established an internal operating limit (IOL) and a Board Policy Limit (BPL) to serve as buffers to the maximum permitted provincial regulatory leverage of 15:1. Alberta Central is willing to accept some risks in certain circumstances that may result in temporary fluctuations in the borrowing multiple over

the IOL, for example those as a result of fluctuations in liquidity deposits at Alberta Central. Where fluctuations in the borrowing multiple over the IOL are due to changes in capital levels, there must be a viable plan to replenish capital to the desired levels within the upcoming business cycle. Breaches of the RPL or regulatory capital requirements are not within Alberta Central's risk tolerance.

Share Capital Dividends

The payment of share capital dividends and the timing and amount of such dividends is subject to the discretion of the board of directors after consideration of Alberta Central's capital adequacy risk appetite, its capital plan which is developed as part of its ICAAP and after a review of year-end results.

Share capital dividends of approximately $4.0 million were paid in the first quarter of 2013 based on members' minimum monthly common share capital account balances and the average monthly Canadian prime interest rate less one percent. In 2012, share dividends were also calculated based on the average monthly prime interest rate less one percent and totaled $3.8 million.

Subsequent to year-end on February 21, 2014, Alberta Central's board of directors declared share capital dividends of approximately $4.2 million based on members' minimum monthly common share capital account balances and the average monthly Canadian prime interest rate less one percent, payable March 14, 2014. These dividends will be reflected in Alberta Central's 2014 financial results.

Other Distributions

Under Basel III, regulatory capital requirements for credit unions are increasing beyond current legislated minimums and the importance of capital at the credit union level is clear. The board of directors of Alberta Central has confirmed its intent to distribute to Alberta credit unions the gains to Alberta Central on the 2007 and 2008 sale of the CUETS credit card business, subject to any such distribution being manageable within Alberta Central's ICAAP and capital plan.

The unrealized fair value increases in ABCP have improved Alberta Central's capital levels and as a result, Alberta Central paid a patronage dividend in March 2013 of $25.0 million. In October, Alberta Central paid an additional patronage dividend of $20.0 million. Subsequent to year-end, on February 21, 2014, the board of directors declared patronage dividends of $10.0 million to Alberta credit unions for payment on March 14, 2014. This distribution will be reflected in Alberta Central's 2014 financial results. Alberta Central's projected capital levels after the distribution remain within the board's capital risk appetite and below the ICAAP IOL.

Basel III

The Basel Committee on Banking Supervision has released global regulatory standards for liquidity and capital for financial institutions, known as the Basel III framework. The Basel III capital framework sets standards that will generally require banking institutions to maintain not only additional regulatory capital, but a higher quality of regulatory capital. The extent to which these standards will be adapted and applied to provincial centrals in Canada has not yet been determined by OSFI or Alberta TBF.

Effective January 1, 2013 Alberta credit unions were required to comply with CUDGC's new capital framework which is adapted from Basel III standards.

Liquidity and Regulatory Capital

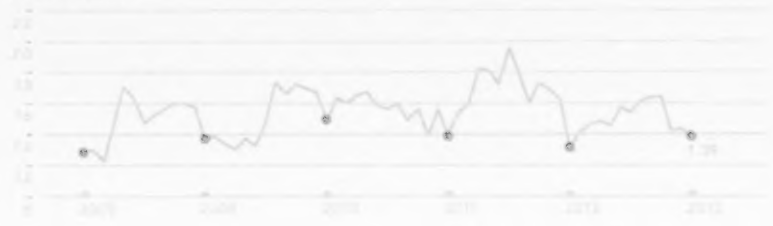
Alberta Central is the prescribed liquidity manager for Alberta's credit unions. Alberta Central's bylaws require Alberta credit unions to maintain a minimum of one percent of their assets as share capital in Alberta Central. Alberta credit unions are also required to maintain liquidity deposits at Alberta Central such that their total liquidity deposits and share capital held with Alberta Central comprise no less than nine percent of each credit union's liabilities.

Alberta Central participates with other Canadian credit union centrals in a group clearing arrangement under the terms of the *Credit Union System Group Clearing Joint Venture Agreement*. A national liquidity arrangement established under the *Inter-Central Liquidity Agreement* provides emergency liquidity to a participating central in the form of a loan through a multilateral credit facility, whereby Alberta Central has committed $0.4 billion. Under the terms of the *Inter-Central Liquidity Agreement*, Alberta Central is required to maintain a minimum of six percent of its provincial system's assets in certain qualifying liquid assets.

Provincial legislation also requires Alberta Central to maintain six percent of Alberta credit union system assets in government securities or certain other qualifying liquid assetsmaturing within one year. One third of this amount must mature within 90 days. The required balance in qualifying liquid assets at December 31, 2013 was $1.3 billion. Alberta Central's liquidity reserves, when measured by year-end balances and throughout the year, were in excess of the requirements under both provincial legislation and the *Inter-Central Liquidity Agreement*. The chart below plots the relationship of Alberta Central's required and actual liquidity over the past five years.

LIQUIDITY RATIO

(Actual to Required)



Alberta Central's total liquid assets consist of the following:

ALBERTA CENTRAL – LIQUID ASSETS
Year ended December 31

(thousands of dollars)	2013	2012
Cash and cash equivalents	89,962	95,189
Securities*		
Federal and provincial government guaranteed commercial paper**, bonds and T-bills	92,094	108,750
Bankers' acceptances	1,102,366	870,093
Commercial paper**	428,106	474,733
Commercial floating rate notes and bonds	141,602	60,234
Total liquid assets	1,834,150	1,607,999

* Securities balances relate to unpledged securities.
** Commercial paper has a rating of R-1 (low) or higher, including principal and interest related to ABCP, with a maturity of less than one year, if currently tracked.

Alberta Central's objectives when managing capital are:
- to comply with the capital requirements set by its regulators
- to maintain a strong capital base to support the continued growth and changing circumstances of the credit union system through the development of Alberta Central's business
- to maintain a consistently strong credit rating and investor confidence
- to balance member credit unions' desire for a return on capital with the capital requirements of Alberta Central to fulfill its liquidity mandate

Alberta Central's capital levels are regulated under guidelines issued by OSFI and Alberta TBF. These regulations require Alberta Central to maintain a prescribed borrowing multiple, the ratio of borrowings to regulatory capital. Through an ICAAP, Alberta Central has established internal capital targets to serve as buffers to the maximum permitted regulatory capital leverage. For purposes of these calculations, borrowings are comprised of members' deposits, loans and notes payable and certain derivative financial liabilities.

Alberta Central's borrowing multiple positions are outlined below.

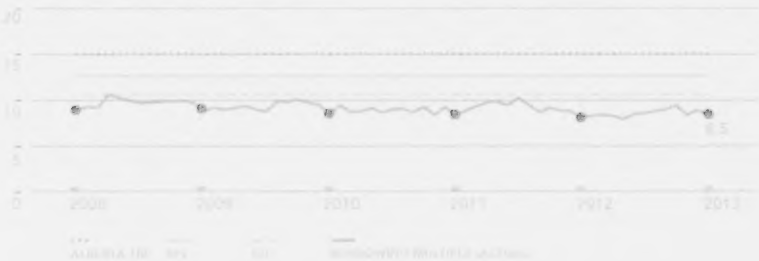
ALBERTA CENTRAL – BORROWING MULTIPLE
Year ended December 31

(thousands of dollars)	2013	2012*
Common shares	212,281	199,285
Retained earnings	65,825	78,535
Less: deductions from capital	(5,086)	(4,813)
Total regulatory capital	271,020	273,007
Borrowing multiple	8.5:1	8.0:1
Maximum borrowing multiples:		
IOL	10.5:1	10.5:1
BPL	12.5:1	12.5:1
Alberta TBF	15:1	15:1
OSFI	20:1	20:1

* The regulatory capital calculation at December 31, 2012 does not reflect changes in IFRS standards effective after 2012 (see Note 3(m)).

Alberta Central's leverage remained below both its regulatory capital and internal capital leverage maximums as presented in the following chart.

BORROWING MULTIPLE



Off-Balance Sheet Arrangements

In the normal course of business, Alberta Central participates in a variety of financial transactions that are not recognized on the statement of financial position. These include commitments to extend credit, standby letters of credit and financial guarantees. Alberta Central enters into various commitments to provide credit unions, affiliates, related parties and credit union members with sources of credit. These may include term loans, lines of credit and overdrafts. Any undrawn portion of a credit commitment, which represents the excess of the authorized limit over the outstanding balance, is not recognized on the statement of financial position.

Critical Accounting Estimates and Assumptions

The accompanying financial statements have been prepared in compliance with IFRS. The significant accounting policies used in preparation of the audited financial statements are described in Note 3. These accounting policies require management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ from those estimates. Significant areas of estimation uncertainty as described in Note 2(d) include those relating to the provision for specific and non-specific credit losses.

Current Year Changes in Accounting Policies

Effective January 1, 2013, Alberta Central adopted a number of new or amended IFRS standards. The impact of the financial reporting and disclosure requirements arising from these new or amended standards is outlined in Note 3(m) and changes in disclosures as a result of adoption of these standards is contained in Notes 4 to 6, 8 and 9.

2014 Economic Outlook

Global growth in 2014 is forecast to improve compared to 2013. The most current data available from the IMF is anticipating global growth in the coming year at 3.7 percent, with growth among the advanced economies increasing to 2.2 percent and growth among the developing economies increasing to 5.1 percent. CBoC currently anticipates Canada's economy improving with real GDP increasing by 2.5 percent and CPI increasing by 1.9 percent. If these expected increases are realized in the Canadian economy, the BoC may come under pressure to increase the target overnight rate in 2014. In Alberta, the CBoC expects real GDP will increase by 3.4 percent, wages will increase by 3.2 percent, unemployment will decrease to 3.8 percent and the population will grow by another 2.5 percent. 2014 may prove to be a pivotal year for Alberta as political decisions are made that will affect future oil and gas pipeline capacity and project timelines. Low unemployment and wage increases that exceed inflation are expected to result in further growth in Alberta's consumer spending in the coming year.

Risk Management

Alberta Central recognizes risk management as one of its most important responsibilities. Risk is inherent in business and when managed appropriately is a source of growth and sustainability. Alberta Central's objective is to optimize risk for the protection and creation of member value. Optimizing risk means striking a balance between risk and reward and at the same time ensuring that Alberta Central's risk-taking is consistent with its strategic plans and board approved risk appetite. In order to meet risk management objectives, risks must be identified, understood, measured, assessed and managed on an enterprise-wide basis. Alberta Central recognizes that implementing an effective enterprise risk management program is a process and an investment which entails significant time and effort to ensure that risks are recognized, governed and appropriately managed in providing for the safety, soundness and good reputation of Alberta Central as a whole.

Enterprise Risk Management (ERM) and Risk Assessment Process

ERM Principles

Alberta Central's ERM system is guided by the following 12 principles from IS31000 (Canada):

Risk management:

- creates and protects value
- is an integral part of all organizational processes
- is part of decision making
- explicitly addresses uncertainty
- is systematic, structured and timely
- is based on the best available information
- is tailored
- takes human and cultural factors into account
- is transparent and inclusive
- is dynamic, iterative and responsive to change
- facilitates continual improvement of the organization
- requires strong support from senior management

ERM Framework

The ERM framework integrates Alberta Central's risk management process into the overall strategic management, and governance structure of the organization.

Key components of Alberta Central's ERM framework include:

- understanding the context including the nature and complexity of risk associated with Alberta Central's products and services
- establishing risk management policies at both the management and governance levels
- accountability for managing risk
- identifying and documenting the owner of each risk
- ensuring that adequate resources are available to manage risk
- establishing communication and reporting mechanisms
- establishing organizational risk appetite on significant risks for stakeholders

In 2012, Alberta Central's board of directors approved qualitative risk appetite statements pertaining to credit (lending and investments), capital, liquidity, market, strategic, operational, governance and legal and regulatory risks. In 2013, management and the Audit and Finance Committee began to develop quantifiable measures regarding the board's appetite and tolerance for risk, recognizing that not all risks are quantifiable. Development of quantified risk appetite and tolerance measurements continues with a view to completion and board approval by the end of 2014.

ERM Process

The ERM process is the predominant method of managing risk throughout Alberta Central. Key components of Alberta Central's risk management process include:

- communication and consultation
- risk identification
- risk analysis
- risk evaluation
- risk treatment
- monitoring and review
- recording and reporting

Alberta Central's ERM system provides the policies and structure to allow it to identify, assess, mitigate where appropriate, and accept risk in accordance with its risk appetite. This process ensures that Alberta Central is cognizant of the material risks that it faces and mitigates them as necessary until they reach an acceptable level.

Risk Identification

Risk identification is an integral component of Alberta Central's risk management process. Each risk identified is categorized in order to facilitate measurement, monitoring and reporting. Material risks are identified through a number of processes including reviews of all products and services, corporate business plans, strategic plans and financial reports. Additionally Alberta Central relies on internal risk analysis, communication with each business unit, and ongoing dialogue with stakeholders and peers to identify material risks. In order to keep abreast of current events and developments, Alberta Central's management team is active in various professional associations, credit union system committees and boards of various organizations.

Risk Severity Assessment

Assessing the severity of each risk is based on management's judgment regarding the likelihood that an identified risk will materialize and the impact or consequences of an identified risk event. Each risk is measured, and where possible a quantitative measurement is used. Each risk has the potential to affect one or more of the following categories of measurement:

- strategic plans in that risk is defined as the effect uncertainty has on the achievement of corporate objectives
- financial in that it affects profit and/or capital
- reputation in that it involves image, ethics, trust, etc.
- efficiency in that it affects operational proficiency or capability
- people in that it refers to risks that affect staff, morale, retention, and/or recruiting

Once all risks have been assessed by each member of the Management Risk Committee, an average of each committee member's score for each identified risk is used to determine the severity level for each risk. The risks are then ranked from highest to lowest based on the average risk severity scores, indicating the materiality of the residual risks.

Responding to Risk

Once a risk has been assessed, Alberta Central management determines how the organization will respond to the risk.

Depending on the level of risk and the tolerance for that risk, one of four responses is selected:

- accept the risk as it is without further action
- treat the risk by applying additional mitigation to bring the risk to a tolerable level
- transfer the risk by insuring or outsourcing the risk
- reject the risk and discontinue the business or service

Once the risk response is selected, the response and any ensuing actions are reported to the board of directors on a regular basis.

Alberta Central has determined that the following risk categories are most applicable to the business operations.

Capital Adequacy Risk

Capital adequacy risk is the risk of financial loss and/or regulatory intervention due to the failure of Alberta Central to maintain the prescribed capital base to meet regulatory requirements and/or the capital base necessary to support its business plans. Alberta Central's capital management processes anticipate the capital requirements and the sources that will be drawn upon to maintain the necessary level of capital throughout the year. Management regularly monitors and reports the levels and quality of the company's capital to the Audit and Finance Committee. Alberta Central's ICAAP and IOL and EPL are approved by the board of directors annually.

Liquidity Risk

Liquidity risk is the risk of being unable to meet financial commitments through regular cash flows which can lead to losses as Alberta Central could be forced to raise funds at higher costs or sell assets at reduced prices. For Alberta Central this means ensuring that managed assets must be available to meet its own needs as well as the needs of Alberta credit unions.

Alberta Central ensures there is sound management of liquidity and funding risk. Alberta Central is willing to accept liquidity risks that carry a low probability of triggering reliance on contingent sources of liquidity and increased cost of funds. Alberta Central's investments are of high grade credit quality that can be pledged or sold to provide liquidity as needed, even under stressed market conditions. As a further risk management strategy, Alberta Central maintains a well-diversified funding structure and develops external sources of liquidity outside the credit union system. Cash flow forecasting, liquidity stress testing and contingency planning are key elements of the liquidity risk management framework. In 2012, Alberta Central initiated discussions with various levels of government around the development of protocols that would better prepare the Alberta credit union system for an unanticipated liquidity event. These discussions progressed through 2013 with positive prospects for completion in early 2014.

Alberta Central is the liquidity manager for the Alberta credit union system, and as such, liquidity is strictly regulated by both provincial and federal regulations and guidelines. Policy and procedures are established to comply with regulations and guidelines and are not open to interpretation and must be abided by at all times.

Alberta Central's liquidity management policies and procedures include:

- specific limits for types, amounts, and duration of investments
- investment dealer restrictions
- approved sources of deposit funds
- approved sources for borrowing funds
- monitoring actual cash flows on a daily basis
- forecasting future cash flow requirements
- scenario testing and contingency planning
- daily monitoring of liquidity position
- quarterly reports to Alberta Central's internal Asset Liability Committee (ALCO) and the board of directors

Alberta Central has established investment and lending policies to ensure the company is able to generate sufficient funds to meet all of its financial commitments in a cost effective manner as they occur. These policies are annually reviewed and approved by the board of directors. Furthermore, the board of directors' reviews, on a regular basis, reporting on Alberta Central's compliance with provincial regulation related to holdings of government securities or certain other qualifying liquid assets maturing within one year (refer to Liquidity and Regulatory Capital). The internal ALCO and Audit and Finance Committee review, on a regular basis, reporting on Alberta Central's current and forecasted liquidity position as well as the composition and amount of liquid assets held within the investment portfolio. Stress testing is performed to assess the amount by which the level of liquid assets could decrease while continuing to meet regulatory requirements; the results of these stress tests are reported to the ALCO and Audit and Finance Committee on a regular basis. During the year, Alberta Central expanded its liquidity stress testing program under the requirements of a new *Stress Testing Policy* which was approved by the board of directors in 2013. The primary purpose of the expanded stress testing is to ensure that the organization maintains an adequate cushion of unencumbered high quality liquid assets held as insurance against a range of liquidity stress scenarios. This stress testing is also an important component in assessing Alberta Central's formal liquidity contingency plans. The results of the stress tests are reported to the board of directors annually. Alberta Central also introduced a *Liquidity Management Plan* during the year which is subject to annual review and approval by the board of directors and forms an important component of Alberta Central's liquidity management framework.

Market Risk

Market risk is comprised of interest rate risk, foreign exchange risk and other price risk.

Interest Rate Risk

Interest rate risk is the risk that interest rate fluctuations may erode Alberta Central's earnings or economic value. Alberta Central's statement of financial position is comprised of interest-bearing assets and liabilities with different maturity dates, which expose Alberta Central to interest rate risk. Monitoring exposures to interest rate fluctuations and their potential impacts on interest margins is accomplished through interest rate scenario testing of assets, liabilities and equity against the effects of multiple possible interest rate increases and decreases. Alberta Central's interest rate risk policy defines specific tolerances for changes in net interest income and net economic value. Alberta Central also uses gap analysis and simulation modeling to analyze the effects of interest rate fluctuations on net interest income. This forecasting is then used in developing defensive strategies, where appropriate, to ensure any variations are managed within established tolerance limits.

Foreign Exchange Risk

Foreign exchange risk is the risk that Alberta Central's earnings will be negatively affected by currency fluctuations. Alberta Central's foreign exchange policies and procedures specifically identify the types of transactions permitted, authorizations, limits, and monitoring and reporting requirements. Alberta Central is authorized to hold up to US$5 million, £0.5 million and £0.5 million in excess of, or short of, its foreign currency liabilities. Alberta Central's exposure to foreign exchange fluctuations is monitored on a daily basis.

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Alberta Central's portfolio consists primarily of short-term, highly liquid, high investment grade credit quality securities. Business is restricted to activities that are understood and that can be adequately priced. Strong risk management is applied as it is expected by stakeholders, regulators and rating agencies to support investment risk. The board, on the recommendation of the Audit and Finance Committee, establishes written policies to ensure prudent investment standards are applied. Alberta Central's *Investment Policy* is reviewed and approved by Alberta Central's board annually. The policy is approved by Alberta TBF each year before being adopted by Alberta Central. Asset liability management is the responsibility of qualified treasury personnel with management oversight from an internal management committee, the ALCO, which reviews market risk exposure at quarterly meetings. Alberta Central's most significant other price risk relates to its holdings of ABCP, as described in note 7 to the audited financial statements.

Credit Risk

Credit risk is the potential for loss due to the failure of a borrower or counterparty to meet its financial or contractual obligations. Alberta Central is exposed to credit risk in its lending operations and in its investment activities. Alberta Central's lending and investment policies addressing credit risk are reviewed and approved annually by the board of directors. Management regularly reviews credit procedures to ensure they provide relevant, appropriate guidance for the underwriting and administration of all types of loans. Alberta Central's lending activity is predominantly to serve the needs of Alberta credit unions and their members. Alberta Central's commercial lending activity is usually as a secondary syndication partner with credit unions, however, loans must meet Alberta Central's lending criteria without reliance on the due diligence process of any syndication partner. Alberta Central employs and is committed to a number of important principles to manage credit exposures:

- board approved *Lending Policy*
- a management Credit Committee whose duties include reviewing and recommending approval of lending policies and approval of larger credits
- delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process, a defined approval process for loan in excess of those limits and the review of larger credits by senior lending personnel prior to recommendation to the management Credit Committee
- use of a credit risk classification system, which assigns a risk rating to all syndicated commercial loans that are reviewed on a regular basis
- employment of personnel engaged in credit granting who are qualified and experienced in lending
- lending policies which are communicated to employees whose activities and responsibilities include credit granting and risk assessment
- annual reviews of loans
- independent reviews by internal audit, which includes reporting the results to the management Credit Committee and Alberta Central's Audit and Finance Committee

Alberta Central maintains both specific and non-specific allowances for credit losses. Specific allowances are established, based on management's knowledge and review of individual loans. The non-specific or general allowance exists to provide an additional allowance against possible volatility in future cash flows as a result of unexpected loan defaults. The non-specific allowance for credit losses is used to recognize losses incurred but not specifically identified. It is estimated based on current non-delinquent credit balances, delinquency rates in the credit union system and the levels of loan loss provisioning in the Alberta credit union system.

Operational Risk

Operational risk includes risk associated with conducting the business operations of Alberta Central. It is the risk of loss arising from ineffective or failed internal processes, technology or human performance. Its impact can be financial loss, loss of reputation,

loss of competitive position or regulatory censure. Due to the nature of operational risk, it cannot be completely eliminated. Alberta Central manages operational risk through established policies and procedures and systems of internal controls, including:

- programs aimed at attraction and retention of qualified staff
- active performance management processes
- encouraging and facilitating employee skill development
- employee code of conduct certification process
- ongoing implementation of enterprise risk management processes including development of business continuity plans
- development of effective policies and procedures
- clearly delegated authorities and limits
- ongoing program of internal audit of effectiveness of operations
- regular review of insurance coverage to ensure adequate protection against insurable losses

Strategic Risk

Strategic risk is the risk to Alberta Central's earnings or capital arising from business decisions or flawed implementation of those decisions. This risk is a function of the compatibility between the organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation. Alberta Central employs a number of means in order to ensure that its strategic plans are appropriate and relevant including:

- three Credit Union Managers' Committee meetings per year – a forum established by Alberta Central to gather input from credit unions regarding their needs and future direction
- participation by representatives of Alberta Central in various national system committees and professional associations to keep abreast of the current environment
- processes to gather strategic planning input from members of Alberta Central's senior management team
- engagement of a cross-section of staff in the strategic planning process
- joint management/board strategic planning sessions which are conducted annually
- regular discussion of strategic plans and emerging strategic issues at all board meetings
- feedback surveys conducted regularly to gather input from the board of directors, credit union clients, and Alberta Central staff and used to develop action plans as appropriate
- analysis and assessment of strategic plan risk led by risk management personnel

Legal and Regulatory Risk

Legal and regulatory risk is the risk of loss due to failure to comply with legal and regulatory requirements. Alberta Central's activities are subject to reviews and periodic on-site examinations by OSFI and Alberta TBF. Alberta Central's chief compliance officer maintains a legislative and regulatory compliance management system through which

legislative and regulatory requirements are annually reviewed and reported. The effectiveness of the controls and processes utilized by the chief compliance officer are annually reviewed and reported to the Audit and Finance Committee by internal audit. New policies and procedures are developed to address legislative and regulatory requirements as appropriate. The board of directors receives an annual compliance report in which any deficiencies and corresponding action plans are identified.

Corporate Governance Risk

Corporate governance risk is the risk of financial and/or reputational impairment caused by lack of effectiveness of the board of directors and senior management. Alberta Central's organizational structures, policies and controls are designed to provide effective corporate governance. Effective corporate governance is attained through the diligence of knowledgeable and competent directors and senior management. Alberta Central's processes and procedures include:

- director qualification and competency criteria
- a comprehensive director orientation program
- ongoing director development and training
- regular board and committee meetings
- Governance Committee oversight of board governance practices
- an annual strategic planning process
- an annual board evaluation process
- board evaluation of senior management
- established performance management processes
- individual performance scorecards for management
- leadership development programs for management
- succession planning process for the chief executive officer and senior management

Management's Responsibility for Financial Reporting

Management of Credit Union Central Alberta Limited (Alberta Central) is responsible for the integrity and fair presentation of the financial information contained in this annual report. The financial statements have been prepared in accordance with International Financial Reporting Standards and, where necessary, include amounts which are based on the best estimates and judgment of management. Financial information appearing throughout this annual report is consistent with the financial statements.

Alberta Central's accounting and related financial controls are designed, and supporting procedures maintained, to provide reasonable assurance of the timely production of reliable and accurate financial information, the promotion of operational efficiency, that assets are safeguarded against loss from unauthorized use or disposition and liabilities are recognized. These supporting procedures include the careful selection and training of qualified staff, the establishment of organizational structures providing a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines of business conduct and risk management throughout Alberta Central. The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic inspections of all major aspects of Alberta Central's operations. The internal auditors have full access to, and meet regularly with, the Audit and Finance Committee (the committee) of the board of directors to review and discuss the results of their work.

Both the federal and provincial regulators of financial institutions conduct examinations and make such enquiries into the business affairs of Alberta Central as they may deem necessary to satisfy themselves that the provisions of the appropriate legislation are being duly observed and that Alberta Central is in sound financial condition.

The committee, composed entirely of external directors, reviews the financial statements, including key management estimates and judgments material to the financial results before such financial statements are approved by the board of directors and submitted to the members of Alberta Central. The committee reviews the audit plans of the internal and external auditors, the results of their audits and management's response to any identified recommendations for improvements in internal control. The committee is also responsible for recommending the appointment of the external auditors to the board of directors.

KPMG LLP, the independent auditors, have audited the financial statements of Alberta Central in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the following report to the members. The auditors have full and unrestricted access to, and meet periodically with, the committee both in the presence and absence of management to discuss their audit and related findings.

Graham Wetter
President and CEO

Anne Gillespie
Chief Financial and Risk Officer

February 21, 2014

Independent Auditors' Report

To the members of Credit Union Central Alberta Limited

We have audited the accompanying financial statements of Credit Union Central Alberta Limited, which comprise the statements of financial position as at December 31, 2013, the statements of income (loss) and comprehensive income (loss), members' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Credit Union Central Alberta Limited as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

Calgary, Canada

February 21, 2014

STATEMENT OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(thousands of dollars)

	Years ended December 31	
	2013	2012 (Note 3(m))
Financial income		
Interest on securities	24,945	25,793
Interest on loans	9,717	9,727
	34,662	35,520
Financial expenses		
Interest on members' deposits	19,755	20,221
Interest on loans and notes	302	335
	20,057	20,556
Net interest income	14,606	14,964
Provision for credit losses (Note 10)	(565)	(4,185)
	14,041	10,779
Operating revenues (Note 4)	23,276	23,284
Operating expenses (Note 4)	(26,855)	(25,084)
Equity earnings (loss) in Celero Solutions (Note 8)	93	(490)
Income before the undernoted	10,523	8,489
Increase in estimated fair value of ABCP and settlement fund proceeds (Note 7)	19,424	32,000
Patronage dividends (Note 16)	(45,000)	–
Income (loss) before income taxes	(15,053)	40,489
Income taxes (Note 6)		
Current income tax expense (recovery)	(2,873)	4,886
Deferred income tax expense (recovery)	(2)	3,009
	(2,875)	7,895
Net income (loss)	(12,178)	32,594
Other comprehensive income (loss)		
Items that will never be reclassified to net income (loss):		
Remeasurements of net defined benefit pension asset (net of income tax of $76; 2012 – income tax recovery of $157)	213	(678)
Items that are or may be reclassified to net income (loss):		
Change in unrealized gains on available-for-sale securities (net of income tax of $52; 2012 - $18)	208	79
Reclassification adjustments for realized gains on available-for-sale securities (net of income tax of $11; 2012 – $5)	48	22
	469	(577)
Comprehensive income (loss)	(11,709)	32,017

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

(thousands of dollars)

	December 31	
	2013	2012 (Note 3(m))
Assets		
Cash and cash equivalents (Note 20)	69,982	95,189
Securities (Note 7)	2,174,699	1,928,770
Loans (Note 10)	322,431	425,697
Derivative financial assets (Note 20)	9,867	10,905
Deferred income tax assets (Note 6)	631	629
Other assets (Note 11)	14,726	7,024
	2,591,365	2,468,114
Liabilities		
Members' deposits (Note 13)	2,274,230	2,142,415
Accounts payable and accrued liabilities	5,801	10,514
Loans and notes payable (Note 14)	24,964	24,983
Derivative financial liabilities (Note 20)	8,337	10,805
	2,313,882	2,188,717
Members' Equity		
Common share capital (Note 15)	212,281	199,285
Retained earnings	63,935	79,213
Accumulated other comprehensive income	1,268	899
	277,484	279,397
	2,591,366	2,468,114

Commitments (Note 17)

Subsequent events (Note 22)

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the board of directors

Alison Starke
Chair, Board of Directors

Ken Morris
Chair, Audit and Finance Committee

STATEMENT OF MEMBERS' EQUITY

(thousands of dollars)

	Share Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at January 1, 2012	193,716	49,719	1,476	244,911
Net income	–	32,594	–	32,594
Change in gains on available-for-sale securities (net of income tax of $23)	–	–	101	101
Remeasurements of net defined benefit pension asset (net of income tax recovery of $157) (Note 3(m))	–	–	(678)	(678)
Issue of share capital (Note 15)	5,579	–	–	5,579
Redemption of share capital (Note 15)	(10)	–	–	(10)
Share capital dividends (Note 16)	–	(3,825)	–	(3,825)
Recovery of income tax on share capital dividends	–	725	–	725
Balance at December 31, 2012	199,285	79,213	899	279,397
Net loss	–	(12,178)	–	(12,178)
Change in gains (losses) on available-for-sale securities (net of income tax of $63)	–	–	256	256
Remeasurements of net defined benefit pension asset (net of income tax of $76)	–	–	213	213
Issue of share capital (Note 15)	13,810	–	–	13,810
Redemption of share capital (Note 15)	(814)	–	–	(814)
Share capital dividends (Note 16)	–	(3,957)	–	(3,957)
Recovery of income tax on share capital dividends	–	757	–	757
Balance at December 31, 2013	212,281	63,835	1,368	277,484

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

(thousands of dollars)

	Years ended December 31	
	2013	2012 (Note 3(m))
Cash resources provided by (used in):		
Operating activities		
Net income (loss)	(12,178)	32,594
Adjustments for:		
Foreign exchange (gains) losses on cash resources	(2,415)	99
Depreciation and amortization	737	768
Current/deferred income tax expense (recovery)	(2,875)	7,895
Increase in estimated fair value of ABCP (Note 7)	(19,000)	(32,000)
Accrued interest on impaired loans	(236)	(928)
Provision for credit losses	565	4,165
Interest income on securities	(24,943)	(25,793)
Interest expense on loans and notes payable	302	335
	(60,145)	(12,845)
Changes in non-cash operating components:		
Accounts receivable and other assets	672	(1,157)
Accounts payable and accrued liabilities	(1,110)	(360)
Increase in members' deposits	131,815	302,319
Decrease (increase) in loans	103,036	(179,462)
Taxes paid	(7,375)	–
	166,893	108,495
Financing activities		
Decrease in loans and notes payable	(37)	(76,387)
Interest paid on loans and notes payable	(294)	(346)
Issuance of share capital, net of redemptions	12,996	5,569
Payment of share capital dividends	(3,957)	(3,825)
	8,708	(74,989)
Investing activities		
Purchase of securities, net of proceeds from sale of securities	(227,290)	(31,647)
Interest received on securities	25,562	25,375
Distribution (contribution) of Celero's prior year net income (loss)	(532)	209
Return of capital on investment in Celero	–	308
Acquisition of capital and intangible assets	(973)	(319)
	(203,233)	(6,074)
Net effect of exchange rate changes on cash resources	2,415	(99)
Increase (decrease) in cash resources	(25,207)	27,333
Cash and cash equivalents, beginning of year	95,189	67,856
Cash and cash equivalents, end of year	69,982	95,189
Cash and cash equivalents consist of:		
Cash	58,822	93,225
Cheques and other items in transit	11,160	1,964
	69,982	95,189

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(thousands of dollars)

1 General Information

Credit Union Central Alberta Limited (operating as Alberta Central) is a limited liability company and is incorporated and domiciled in Canada. Alberta Central is governed by the *Credit Union Act of Alberta* and is also subject to the provisions of the *Cooperative Credit Associations Act of Canada*.

The address of its registered office is:
350N, 8500 Macleod Trail S.E.
Calgary, Alberta

Alberta Central is the liquidity and payments provider and trade association for credit unions in Alberta. Alberta Central's financial statements comprise the accounts of Alberta Central and its proportionate share of the assets, liabilities, revenue and expenses of its joint arrangement, Credit Union Payment Services (CUPS) (Note 9). CUPS provides payment services and related support services to the members of Alberta Central, SaskCentral and other organizations. The financial statements also comprise Alberta Central's equity share of the income (loss) of its significantly influenced associate, Celero Solutions (Celero) (Note 8). Celero provides information technology services to credit unions, its owners, Alberta Central, SaskCentral, Manitoba Central and Concentra Financial Services Association, and to other organizations. The registered place of business for both CUPS and Celero is Calgary, Alberta.

2 Basis of Preparation

a) Statement of Compliance

Alberta Central prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

These financial statements have been approved for issue by the board of directors on February 21, 2014.

b) Basis of Measurement

The financial statements have been prepared under the historical cost basis except for the following:

- held for trading financial instruments are measured at their fair value
- available-for-sale financial assets are measured at their fair value, except as described in Note 21
- defined benefit pension plan assets and liabilities are measured at their present value

c) Presentation Currency

The financial statements are presented in Canadian dollars, which is also Alberta Central's functional currency.

d) Significant Estimates and Assumptions

The preparation of these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. Estimates and assumptions are evaluated on a continuous basis, and are based on past experiences and other factors, including expectations with regard to future events. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Areas of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year are described below:

Provision for Credit Losses

As described in Note 3(b), a loan loss provision is estimated for both specific loans that are individually significant (specific loan loss provision) as well as the collective portfolio (non-specific loan loss provision). In assessing whether specific and non-specific loan impairment exists, Alberta Central management makes estimates and assumptions as to whether there is any observable data indicating an impairment trigger and whether the loss event has an impact on the estimated future cash flows of the loan.

Furthermore, estimates and assumptions are made by management in determining the specific and non-specific loan loss provisions. To determine the specific loan loss provisions, management must make assumptions regarding the creditworthiness of individual borrowers, the timing of receipt of future cash flows (repayment from the borrowers), and estimate the net realizable value and timing of the realization of the collateral underlying the loan. As credit unions are Alberta Central's syndicate partner in all commercial lending activity, the non-specific loan loss provision is determined by reviewing historical trends in delinquency rates and loan provisioning levels at credit unions as well as management's assessment of the impact of recent events and changes in industry and economic conditions. Refer to Note 10 for the carrying value of the allowance for credit losses.

3 Significant Accounting Policies

The significant accounting policies applied in the preparation of these financial statements are summarized below and have been consistently applied to all years presented, except as described in Note 3(m).

a) Revenue Recognition

Interest income on loans and securities is recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the expected life of the financial asset. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset to its net carrying amount. Interest on impaired financial assets continues to be recognized through the unwinding of the discount.

Membership dues income is recognized on a straight-line basis over the year. Other revenue is recognized as services are provided, when the amount can be reliably measured and deemed collectible.

b) Provision for Credit Losses

Alberta Central reviews its financial assets, specifically its commercial loan and mortgage portfolio, and securities, for impairment on a quarterly and annual basis. A financial asset or group of financial assets is impaired if there is objective evidence that one or more events that occurred after the initial recognition of the asset(s) has had an impact on the estimated future cash flows of the asset(s) and the impact can be reliably estimated. Alberta Central first assesses whether objective evidence of impairment exists individually for assets that are individually significant, and collectively for assets that are not individually significant. If management determines that no objective evidence of impairment exists for an individually assessed asset, the asset is grouped with others that have similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Loans

Alberta Central maintains specific and non-specific loan loss provisions established as a result of reviews at an individual loan, and loan portfolio, level. A specific provision is established by reviewing the creditworthiness of individual borrowers and the value of the collateral underlying the loan. The specific provision is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognized in the provision for credit losses in the statement of income (loss) and comprehensive income (loss).

A non-specific provision is established where, in management's opinion, it is required to absorb losses inherent in the loan portfolio for which a specific provision cannot yet be determined. A non-specific provision is based on observable data such as historical credit loss experience, known portfolio risks, and current economic conditions. As credit unions are Alberta Central's syndicate partner in all commercial lending activity, the non-specific loan loss provision is determined by reviewing historical trends in delinquency rates and loan provisioning levels at credit unions as well as management's assessment of the impact of recent events and changes in economic conditions. Delinquency rates are regularly benchmarked against actual outcomes to ensure that management's assumptions regarding delinquency remain appropriate. The non-specific loan loss provision is recognized through the use of an allowance account and is recognized in the provision for credit losses in the statement of income (loss) and comprehensive income (loss).

Alberta Central writes off amounts charged to the allowance account against the carrying amount of an impaired loan when all collateral has been liquidated and no future cash flows are expected.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the loan or allowance. The amount of the reversal is recognized in the provision for credit losses on the statement of income (loss) and comprehensive income (loss).

Securities

Alberta Central periodically assesses impairment of all of its securities, except those classified as held for trading. Management considers significant financial difficulty of the issuer, the disappearance of an active market for a security due to financial difficulties, or a significant or prolonged decline in the fair value of an available-for-sale equity security below its cost as objective evidence of impairment resulting in the recognition of an impairment loss. For securities measured at amortized cost, the amount of the loss is measured as the difference between the security's carrying amount and the present value of estimated future cash flows discounted at the security's original effective interest rate. For securities measured at cost, the amount of the loss is measured as the difference between the security's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar security. For securities classified as available-for-sale, the amount of the cumulative loss in fair value recognized in accumulated other comprehensive income and reclassified to net income (loss) is the difference between the security's acquisition cost and current fair value, less any previously recognized impairment.

Impairment losses can only be reversed on securities measured at amortized cost and debt securities classified as available-for-sale, and only when the decrease in impairment loss can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal is recognized in net income (loss).

c) Personnel

Short-term Employee Benefits

Short-term employee benefits include all benefits and payments made on behalf of Alberta Central personnel including wages, salaries, vacation, medical and dental benefits and short-term incentive compensation, and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term incentive plans provided Alberta Central has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

Post-employment Benefits

Alberta Central's post-employment benefit program consists of both a defined contribution and defined benefit pension plan.

i) Defined contribution pension plan

Alberta Central contributes annually to a defined contribution pension plan for employees. A defined contribution plan is a pension plan under which Alberta Central

pays fixed contributions to a third party and has no legal or constructive obligation to pay further amounts. The contributions are recognized as personnel expense when they are due in respect of service rendered to the end of the reporting period.

ii) Defined Benefit Pension Plan

The defined benefit pension plan is a pension plan for certain executive management. A defined benefit pension plan defines an amount of pension benefit that an executive will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The amount of the defined benefit asset or liability recognized in the statement of financial position is equal to the present value of the defined benefit obligation as at the year-end reduced by the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in Canadian dollars, and that have terms to maturity approximating the terms of the related pension asset or liability. Remeasurements of the net defined benefit asset or liability, which comprise actuarial gains (losses) and the return on plan assets, are recognized immediately in other comprehensive income (loss) in the statement of income (loss) and comprehensive income (loss). Alberta Central determines the net interest income or expense on the net defined benefit asset or liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit asset or liability. The net interest income or expense is recognized in interest on members' deposits and current service costs are recognized in personnel expense within operating expenses in the statement of income (loss) and comprehensive income (loss).

Long-term Employee Benefits

Alberta Central's obligation under a long-term incentive plan for executive management is accrued as services are rendered.

d) Income Taxes

Income tax expense comprises both current and deferred income tax.

Current Income Tax

Current income tax is the expected tax payable (receivable) on the taxable income (loss) for the year. It is calculated on the basis of the applicable tax law in Alberta using rates enacted or substantially enacted at year-end. Current income tax is recognized as an expense (recovery) in the statement of income (loss) and comprehensive income (loss) except to the extent it relates to items that are charged (credited) in other comprehensive income (loss) or directly to equity. In such circumstances, it is charged (credited) to other comprehensive income (loss) or equity.

If Alberta Central has tax losses during the year that may be offset against a tax liability for a previous year, these losses are recognized as an asset and a reduction of income tax expense. Where tax losses can be carried forward against taxable income of future years, a deductible temporary difference arises. Those losses offset deferred tax liabilities recognized in the statement of financial position.

Deferred Income Tax

Alberta Central follows the asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized on temporary differences arising between the financial statement carrying amounts of assets and liabilities and their respective tax bases. The deferred tax assets and liabilities are calculated using enacted or substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse.

Deferred tax assets are recognized when it is probable that future taxable income will be available against which these temporary differences can be utilized. Any changes in deferred tax assets or liabilities during the year are reflected in income tax expense on the statement of income (loss) and comprehensive income (loss) unless they relate to items that are recognized in other comprehensive income (loss) or accumulated other comprehensive income.

e) Foreign Currency Translation

Transactions denominated in a foreign currency are translated into Canadian dollars using exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the closing rate as at the reporting date. Foreign currency differences arising on translation of foreign currency transactions and monetary items are recognized in net income (loss).

f) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and items in transit. It also includes restricted cash pledged as described in Note 20.

g) Investment in Celero

Alberta Central uses the equity method to account for Celero over which it exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Under this method, the investment is initially recognized at cost and is adjusted for Alberta Central's share of income (loss) and distributions received from the investee. The investment is written down to recognize losses, if any, in its value. Alberta Central assesses impairment of its investment in Celero on an annual basis and losses, if any, are recognized in the statement of income (loss) and comprehensive income (loss).

When Alberta Central's share of losses in Celero equals or exceeds its interest in the investment, including any other unsecured receivables, Alberta Central does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment.

For preparation of the financial statements, consistent accounting policies for comparable transactions and events in similar circumstances are used. Financial information for Celero is included in Note 8.

h) Investment in CUPS

Alberta Central uses the proportionate consolidation method to account for its investment in the CUPS joint operation. A joint operation is an arrangement whereby the parties that have joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement. Under this method, Alberta Central's proportionate share of the joint operation's assets, liabilities, revenue and expenses is combined with similar items, line by line, in its financial statements.

Intercompany gains on transactions between Alberta Central and the joint operation are eliminated to the extent of Alberta Central's interest in the joint operation. Intercompany losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Further detail on the accounting treatment for Alberta Central's investment in CUPS is included in Note 9.

i) Capital and Intangible Assets

Capital assets are recognized at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Computer hardware	3 years
Equipment	3 years
Furniture	10 years
Leasehold improvements	Term of the lease to 2021

Depreciation commences on computer hardware and equipment once the assets are placed into use. The residual values and useful lives of the capital assets are reviewed, reassessed and adjusted, if appropriate, each reporting period.

Intangible assets consist of acquired operating software assets recognized at historical cost and amortized using the straight-line method over their estimated useful economic lives ranging from three to five years.

Capital and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An asset is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Fair value is estimated based on recent transactions for similar assets within the same industry. Value in use is estimated based on discounted net cash flows from the continuing use and ultimate disposal of an asset.

j) Share Capital Dividends

Dividends on Alberta Central's member shares are recognized in equity in the period in which they are declared by Alberta Central's board of directors.

k) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the statement of income (loss) and comprehensive income (loss) on a straight-line basis over the period of the lease.

l) Financial Assets and Liabilities

All financial assets are classified as held for trading, available-for-sale, held to maturity or loans and receivables. All financial liabilities are classified as held for trading or other financial liabilities. Management determines the classification of its instruments at initial recognition. Financial assets and liabilities are recognized when Alberta Central becomes a party to the contractual provisions of the instrument. Alberta Central uses settlement date accounting for regular-way trades, which are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Held for Trading

A financial asset or liability must be classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivative instruments must be classified as held for trading and measured at fair value unless they are designated as an effective hedging instrument. Alberta Central has no derivatives designated as accounting hedges. Alberta Central may designate any financial asset or liability as held for trading if certain specified conditions are met.

Alberta Central has classified cash and cash equivalents, certain securities, derivative financial assets and derivative financial liabilities as held for trading. Certain securities have been designated as held for trading as Alberta Central manages and evaluates the performance of these securities together on a fair value basis, and information about the group of securities is provided internally on that basis to key management. All financial assets and liabilities classified as held for trading are initially and subsequently measured at fair value with gains (losses) recognized in net income (loss).

Available-for-Sale

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Alberta Central has classified certain securities as available-for-sale.

Financial assets classified as available-for-sale are initially and subsequently measured at fair value with unrealized gains (losses) recognized in other comprehensive income (loss), except for impairment losses, which are recognized in net income (loss). Equity securities classified as available-for-sale which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost. Their fair value cannot be reliably measured when the variability in the range of reasonable fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. Changes in fair value are recorded in accumulated other comprehensive income in the statement of financial position. When unrealized gains (losses) become realized through sale or impairment, they are reclassified from accumulated other comprehensive income to net income (loss).

Held to Maturity

Held to maturity financial assets are those with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. If Alberta Central were to sell other than an insignificant amount of held to maturity assets, the entire category would be reclassified as available-for-sale. Alberta Central has not classified any financial assets as held to maturity as at December 31, 2013.

Held to maturity financial assets are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Alberta Central has classified its accounts receivable, certain securities and loans as loans and receivables.

Loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

Other Financial Liabilities

Financial liabilities that do not fall under the held for trading category are classified as other financial liabilities. Alberta Central has classified its accounts payable and accrued liabilities, members' deposits, and loans and notes payable as other financial liabilities.

Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income is included on the statement of financial position as a separate component of members' equity and includes remeasurements of the net defined benefit pension asset or liability and unrealized gains (losses) on available-for-sale securities.

Embedded Derivatives

Embedded derivatives are components within a financial instrument or other contract that have features similar to a derivative. Embedded derivatives must be separated from the host instrument and accounted for separately if the economic characteristics and risks of the

embedded derivative are not closely related to the economic characteristics and risks of the host instrument and the host instrument is not already measured at fair value with changes in fair value recognized in net income (loss). Where Alberta Central is required to separate an embedded derivative from its host instrument but is unable to measure the fair value of the embedded derivative separately, the entire instrument is treated as a held for trading financial instrument measured at fair value with changes in fair value recognized in net income (loss).

Transaction Costs

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading and are capitalized upon initial recognition for all other financial instruments.

Determination of Fair Value

For financial instruments traded in an active market, fair value is determined by reference to quoted market prices or dealer price quotations. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. Where independent quoted market prices are not available, fair value is determined by reference to recent arm's length market transactions for similar instruments, the current fair value of other instruments having substantially the same terms, conditions and risk characteristics or through the use of other valuation techniques.

With the use of valuation techniques, fair value is estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the date of the statement of financial position. Alberta Central uses valuation techniques primarily to value its derivatives.

Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of ownership of the assets have been transferred. Financial liabilities are derecognized when the obligation has been discharged, cancelled or expired.

m) Change in Accounting Policies

Alberta Central has adopted the following new standards and amendments to standards, in accordance with their transitional provisions, with a date of initial application of January 1, 2013.

Joint Arrangements

Alberta Central has adopted the new standard for joint arrangements, IFRS 11 *Joint arrangements*. Under the requirements of the new standard, Alberta Central has evaluated whether its CUPS joint arrangement meets the definition of a joint operation, accounted for using the proportionate consolidation method, or joint venture, accounted for using the

equity method. When making this assessment, Alberta Central has considered the structure and legal form of CUPS, the terms of the contractual arrangement and other facts and circumstances. Based on this analysis, Alberta Central has concluded that CUPS meets the definition of a joint operation and has continued to recognize its investment in CUPS using the proportionate consolidation method. Therefore, there has been no quantitative impact on the financial statements from this change.

Post-employment Defined Benefit Pension Plan

Under amended IAS 19 *Employee benefits*, Alberta Central is required to determine net interest income or expense on the net defined benefit pension asset or liability by applying the discount rate used to measure the net defined pension benefit obligation to the net defined benefit pension asset or liability. Consequently, net interest on the net defined benefit pension asset or liability comprises interest cost on the defined benefit pension obligation and interest income on plan assets. Previously, interest income on plan assets was calculated based on their expected long-term growth rate considering market expectations.

The amendments to IAS 19 also included a change in presentation of actuarial gains (losses). Previously, IAS 19 provided an option to present actuarial gains (losses) either in net income (loss) or other comprehensive income (loss) and Alberta Central made an accounting policy choice to present its actuarial gains (losses) in net income (loss). Amendments to IAS 19 require that all actuarial gains (losses) be presented in other comprehensive income (loss). These changes have been applied retrospectively. The following table summarizes the impact of the above changes on Alberta Central's statement of income (loss) and comprehensive income (loss):

	2013	2012
Decrease in interest on members' deposits	148	267
Decrease (increase) in personnel expenses	(437)	568
Decrease (increase) in deferred tax expense	76	(157)
Increase (decrease) in net income (loss)	(213)	678
Increase (decrease) in remeasurements of net defined benefit pension asset (Note 5)	269	(835)
Tax on remeasurements of net defined benefit pension asset	(76)	157
Increase (decrease) in other comprehensive income (loss)	212	(678)

Fair Value Measurement

IFRS 13 *Fair value measurement* is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. The application of the new standard has had no significant impact on the measurement of Alberta Central's assets and liabilities.

Disclosure of Interests in Other Entities

IFRS 12 *Disclosure of interests in other entities* establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard introduces additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities. In accordance with the transitional provisions of IFRS 12, Alberta Central has presented new disclosures for its investment in CUPS and Celero for both the current and comparative year.

Presentation of Items of Other Comprehensive Income (Loss)

Alberta Central has modified its presentation of the other comprehensive income (loss) section of its statement of income (loss) and comprehensive income (loss) in accordance with the amendments to IAS 1 *Presentation of financial statements*. Items presented in other comprehensive income (loss) have been separated into two groups, based on whether or not they may be reclassified to net income (loss) in the future. Comparative information has been reclassified accordingly.

n) Standards and Interpretations Issued but Not Yet Effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014 and have not been applied in preparing these financial statements. Those that may be relevant to Alberta Central are set out below. Alberta Central does not expect a material impact to its financial statements from the adoption of each of these standards, except as otherwise described below. Alberta Central does not plan to adopt these standards early.

IFRS 9 Financial Instruments

This new standard is the result of the first phase of the IASB's project to replace IAS 39 *Financial instruments: recognition and measurement*. The new standard has exchanged the current multiple classification categories with only two categories: amortized cost and fair value. Furthermore, the measurement model for equity instruments has changed to require that all equity instruments be measured at fair value.

Portions of this standard relating to impairment and hedge accounting remain in development and the full impact of the standard on Alberta Central's financial statements will be unknown until completion of the project. The effective date of this new standard has been deferred indefinitely.

4 Operating Revenues and Operating Expenses

	2013	2012
Operating revenues		
Payment services	9,594	9,691
Financial and ancillary services	3,115	3,170
Member dues	5,943	5,862
Other	4,620	4,561
	23,274	23,284
Operating expenses		
Personnel (Note 3(m))	12,991	11,445
Property and equipment	4,731	4,803
Administration and other	6,863	5,861
Organization	2,730	2,975
	25,885	25,084

Included within financial and ancillary services operating revenue is $696 (2012 – $716) of foreign exchange gains. Operating expenses include $8,812 (2012 – $8,411) relating to Alberta Central's share of CUPS' operating expenses (Note 9).

Personnel expenses consist of the following:

	2013	2012 (Note 3(m))
Salaries and other short-term employee benefits	10,783	10,248
Post-employment benefits	1,328	812
Long-term employee benefits	175	250
Termination benefits and retiring allowances	720	135
	12,991	11,445

5 Personnel

a) Defined Contribution Pension Plan

Alberta Central contributes annually to a defined contribution pension plan for employees. The annual pension expense of $484 (2012 – $448) is included in personnel expense in operating expenses in the statement of income (loss) and comprehensive income (loss).

b) Defined Benefit Pension Plan

Alberta Central also contributes annually to a defined benefit pension plan for certain executive management which qualifies as a retirement compensation arrangement under the *Income Tax Act*. This plan is fully funded by Alberta Central. Concentra Trust is the custodian of the plan. An actuarial valuation of the defined benefit obligation was performed as of December 31, 2013.

The defined benefit pension plan exposes Alberta Central to actuarial risks, primarily to market (investment) risk and interest rate risk.

The principal actuarial assumptions used are as follows:

	2013	2012
Discount rate	5.0%	4.3%
Future salary increases	5.0%	5.0%

Actual results may vary from these assumptions.

Plan assets are limited to Government of Canada securities and cash. The rate used to discount the defined benefit obligation is determined by reference to market yields at the end of the financial year on high quality corporate bonds with cash flows that match the timing and amount of expected benefit payments. At December 31, 2013, the weighted average duration of the defined benefit obligation is 15.4 years (2012 – 15.6 years).

The movement in the fair value of plan assets and defined benefit obligation during the year is as follows:

	2013	2012 (Note 3(m))
Fair value of plan assets, beginning of year	5,433	4,672
Interest income	173	267
Remeasurement of net defined benefit pension asset	(148)	(247)
Employer contributions	191	877
Benefits paid	(126)	(136)
Lump sum benefit payments	(1,289)	–
Fair value of plan assets, end of year	4,224	5,433
Defined benefit obligation, beginning of year	4,263	3,431
Current service cost	206	180
Past service cost and loss on lump sum benefit payments	320	–
Interest expense	173	200
Actuarial losses arising from changes in demographic assumptions	85	–
Actuarial (gains) losses arising from experience adjustments and changes in financial assumptions	(523)	588
Benefits paid	(136)	(136)
Lump sum benefit payments	(1,289)	–
Defined benefit obligation, end of year	3,050	4,263
Pension surplus (Note 11)	1,174	1,170

The amounts recognized in the statement of income (loss) and comprehensive income (loss) on a before-tax basis are as follows:

	2013	2012 (Note 3(m))
Included in net income (loss):		
Current service cost	(206)	(180)
Past service cost and loss on lump sum benefit payments	(320)	–
Net interest income	90	67
	(436)	(113)
Included in other comprehensive income (loss):		
Remeasurements of net defined benefit pension asset	(148)	(247)
Actuarial losses arising from changes in demographic assumptions	(86)	–
Actuarial gains (losses) arising from experience adjustments and changes in financial assumptions	523	(588)
	289	(835)

Alberta Central expects to contribute $72 to the defined benefit plan in 2014.

6 Income Taxes

The combined federal and provincial substantively enacted income tax rate applicable to Alberta Central is 19.1 percent (2012 – 18.8 percent). Income taxes calculated at substantively enacted rates differ from the provision included in the statement of income (loss) and comprehensive income (loss) for the following reasons:

	2013	2012 (Note 3(m))
Income taxes at substantively enacted rates	(2,880)	7,472
Increase (decrease) in income taxes resulting from:		
Non-deductible amounts	44	41
Impact of rate changes on temporary differences	(60)	22
Other	21	360
Provision for income taxes	(2,875)	7,895

The deferred income tax asset is attributable to the following:

	2013	2012
Deferred income tax asset:		
Depreciation and amortization	249	325
Charges for non-specific loan impairment	564	338
Other	82	185
	895	848
Deferred income tax liability:		
Post-employment benefits	(264)	(219)
Net deferred income tax asset	631	629

The deferred income tax expense (recovery) included in the statement of income (loss) and comprehensive income (loss) comprises the following temporary differences:

	2013	2012 (Note 3(m))
Depreciation and amortization	79	1,798
Charges for non-specific loan impairment	(246)	(35)
Loss carry-forwards	–	1,020
Post-employment benefits	45	(10)
Other	123	236
Deferred income tax expense (recovery)	(2)	3,009

7 Securities

	Classification	2013	2012
Government	Available-for-sale	117,647	128,743
	Held for trading	–	35,027
		117,647	163,770
Corporate	Available-for-sale	1,762,795	1,525,654
	Held for trading	281,784	207,520
	Held to maturity	–	19,898
		2,045,579	1,753,072
Credit Union Central of Canada (CUCC)	Available-for-sale	634	649
Central 1 subordinated debt	Loans and receivables	6,000	6,000
Mortgage pooling funds	Loans and receivables	381	204
		2,170,241	1,922,695
Totals	Available-for-sale	1,881,076	1,655,046
	Held for trading	281,784	242,547
	Held to maturity	–	19,898
	Loans and receivables	6,381	6,204
		2,170,241	1,923,695
Accrued interest receivable		4,458	5,075
		2,174,699	1,928,770

At December 31, 2013, $230,789 (2012 – $219,894) of securities were pledged to the Bank of Canada under the terms of the *Credit Union System Group Clearing Agreement* (Note 14) and are restricted from Alberta Central's use.

Alberta Central's mortgage pooling funds represent an investment in Canadian-based residential mortgages. All mortgages in the pool are Canada Mortgage and Housing Corporation (CMHC) insured mortgages. The mortgages were acquired by Alberta Central with the following amortization periods:

Amortization Period	% of Total
10-14 years	1.2%
15-19 years	10.1%
20-24 years	6.3%
25-29 years	53.3%
30-34 years	25.9%
35 years and greater	3.2%

As all mortgages within the mortgage pool are insured, an economic downturn would have a limited impact on the carrying value of the mortgage pool.

At December 31, 2013, Alberta Central held non-bank and bank sponsored asset-backed commercial paper (ABCP) with a total face value of $188,154 (2012 – $197,550) as outlined in the table below.

	Face Value Received Upon Restructuring	Sold, Discharged or Principal Repaid	Face Value at December 31, 2013	Face Value at December 31, 2012
Non-bank sponsored ABCP				
MAV 2 notes:				
Class A-1	98,577	(320)	98,257	98,261
Class A-2	56,334	–	56,334	56,334
Class B	10,226	–	10,226	10,226
Class C	5,107	(5,107)	–	–
Tracking notes	9,953	(7,593)	3,360	2,491
	180,197	(13,020)	167,177	167,312
MAV 3 tracking notes:				
Traditional asset:				
Rated	27,485	(27,200)	285	679
Unrated	7,434	(5,806)	1,628	2,267
Ineligible asset	6,979	(2,852)	4,127	4,499
	41,898	(35,858)	6,040	7,445
Non-bank sponsored ABCP	222,095	(48,878)	173,217	174,757
Bank Sponsored ABCP				
Superior Trust and Apex Trust	22,790	(7,353)	14,940	22,793
Total ABCP	244,885	(56,731)	188,154	197,550
Face value at December 31			188,154	197,550
Accrued interest			2,533	2,545
Cumulative fair value adjustment at December 31			(25,335)	(42,335)
Fair value at December 31			167,352	157,760

All of the ABCP investments have been designated as held for trading financial assets and are carried at fair value as Alberta Central manages and evaluates performance of the group of ABCP investments together on a fair value basis using bid pricing. Alberta Central recorded an increase in the estimated fair value of ABCP of $19,000 (2012 – $32,000) in the statement of income (loss) and comprehensive income (loss).

ABCP investors were able to apply for their share of settlement funds that were collected from investment dealers who sold third party ABCP between July 24 and August 13, 2007. In 2013, Alberta Central received $424 in settlement funds in respect of two notes which were purchased within the eligible time frame. The receipt has been recorded as income within the increase in estimated fair value of ABCP in the statement of income (loss) and comprehensive income (loss).

At the dates of acquisition, the ABCP notes were short-term investments rated R1 (high) by DBRS, the highest credit rating issued for commercial paper. As a result of the general credit crisis that occurred in 2007 and 2008, they were restructured into longer-term floating-rate notes reflecting the maturity of the related underlying assets. The expected maturity, DBRS ratings and coupon rates of the ABCP at December 31, 2013 are outlined in the following table:

	Expected Maturity	DBRS Rating	Coupon Rate
MAV 2			
Class A-1	2017	AA (low)	Bankers' acceptance minus 50 basis points[1]
Class A-2	2017	A (low)	Bankers' acceptance minus 50 basis points[1]
Class B	2017	Unrated	Bankers' acceptance minus 50 basis points, payable after principal and interest has been paid on Class A-1 and A-2
Class C	2017	Unrated	Bankers' acceptance plus 20 percent, payable after principal and interest has been paid on Class A-1, A-2 and B
Tracking notes for ineligible assets	2056	Unrated	Floating
MAV 3			
Tracking notes for traditional assets	2017	Unrated to AAA	Floating
Tracking notes for ineligible assets	2017	Unrated	Floating
Bank ABCP	2016	BBB to A	Bankers' acceptance/Bankers' acceptance plus 35 basis points[1]

[1] Paid/Accruing
[2] Coupon rate floats based on return of underlying assets, net of expenses

The MAV 2 notes are backed by synthetic collateralized debt obligations or a combination of traditional assets and synthetic collateralized debt obligations. The notes have levels of subordination relative to potential losses and principal and interest payments. MAV 2 also contains tracking notes for ineligible assets (US sub-prime assets or home equity loans that may be subject to significant risk of suffering losses).

Certain MAV 3 notes are backed solely by traditional assets while other MAV 3 notes are backed by ineligible assets (US sub-prime assets or home equity loans that may be subject to significant risk of suffering losses).

Alberta Central holds two bank-sponsored ABCP notes, Superior Trust and Apex Trust. These notes have an exposure to commercial mortgages and leveraged super senior tranches of mortgage-backed securities.

During the year, Alberta Central received principal payments of $9,396 (2012 – $2,488) and earned interest of $1,615 (2012 – $1,645) on ABCP. On June 6, 2013, DBRS upgraded the MAV 2 Class A-2 notes to A (low) from BBB (high). MAV 2 Class A-1 notes were also confirmed at AA (low). During the year, DBRS assigned ratings of BBB and A(low) to the previously unrated Apex Trust notes (face value $9,589) and upgraded the Superior Trust note (face value $13,204) from A(low) to A.

8 Investment in Celero

Alberta Central has a 31.4 percent interest in Celero (Note 11). While Celero is legally structured as a joint venture, it does not qualify as such for accounting purposes as Alberta Central does not have joint control. Joint control is not achieved as Alberta Central holds two of seven positions in Celero's governance structure. Accordingly, Alberta Central accounts for its investment in Celero using the equity method. Under the terms of the *Joint Venture Agreement* and as directed by Celero's governing body, the net income (loss) of Celero is distributed to (contributed by) Alberta Central in proportion to its ownership interest in Celero.

Summarized financial information of Celero is as follows:

	2013	2012
Current assets	12,412	15,997
Non-current assets	18,219	21,751
Current liabilities	24,905	28,998
Non-current liabilities	647	2,304
Revenue	78,558	79,971
Income (loss) before equity income in Everlink	757	(1,981)
Net income (loss) and comprehensive income (loss)	757	(1,848)

The movement in Alberta Central's interest in Celero during the year was as follows:

	2013	2012
Carrying value at January 1	2,135	3,142
Share of Celero's current year net income (loss) and comprehensive income (loss)	93	(490)
Share of contribution (distribution) of Celero's prior year net income (loss) and comprehensive income (loss)	532	(209)
Return of capital	–	(308)
Carrying value at December 31	2,760	2,135

Alberta Central is liable in proportion to its ownership interest in Celero, for all of Celero's covenants and obligations.

9 Investment in CUPS

Alberta Central has a 50 percent interest in the CUPS joint arrangement. Alberta Central has joint control over the CUPS joint arrangement as it has 50 percent representation in the governance structure and all decisions require a majority vote. As CUPS is legally structured as an unincorporated entity, its assets and liabilities are primarily those of the parties to the joint arrangement. Accordingly, Alberta Central accounts for its investment in CUPS as a joint operation using the proportionate consolidation method.

10 Loans

	2013	2012
Commercial loans and mortgages	179,437	181,576
Credit unions	149,171	248,610
Celero (Note 8)	4,396	5,710
Employee mortgages	2,833	1,935
Cooperatives	2,027	2,481
	337,414	440,312
Accrued interest receivable	3,528	3,337
	340,942	443,649
Less allowances on commercial loans and mortgages:		
Specific	(17,349)	(16,522)
Non-specific	(1,172)	(1,430)
	322,421	425,697

Alberta Central's commercial loans and mortgages portfolio includes $23,672 (2012 – $24,355) in impaired loans. The following is a reconciliation of the allowance on impaired and non-performing commercial loans and mortgages:

	2013	2012
Balance, beginning of the year	(3,492)	(3,767)
Increase in specific loan loss provision	(52)	(4,355)
Decrease in non-specific loan loss provision	(265)	(770)
Balance, end of the year	(3,317)	(7,992)

Included in accrued interest receivable is $3,010 (2012 – $2,674) of interest income on impaired and non-performing loans.

Employee mortgages are Alberta-based primary residence mortgages. All mortgages were originated (not acquired) by Alberta Central with an amortization period of 25 years (2012 – 25 years). Canada Mortgage and Housing Corporation (CMHC) insured mortgages comprise $130 (2012 – $215) and 5.3 percent (2012 – 11.1 percent) of employee mortgages. The average loan-to-value ratio for newly originated uninsured employee mortgages during 2013 is 52.2 percent (2012 – 55.2 percent). As employee mortgages do not exceed a loan-to-value ratio of 80 percent at origination of the mortgage, an economic downturn would have a limited impact on the carrying value of employee mortgages.

11 Other Assets

	2013	2012
Income tax receivable	6,109	–
Investment in Cidero – equity method (Note 8)	4,280	2,138
Accounts receivable and prepaid expenses	2,116	1,970
Capital and intangible assets (Note 12)	1,985	1,749
Pension surplus (Note 9)	1,326	1,370
	15,816	7,024

12 Capital and Intangible Assets

	Equipment	Leasehold improvements	Furniture	Operating software	Total
At December 31, 2012					
Cost	3,323	5,795	2,772	3,294	15,184
Accumulated depreciation/amortization	(3,164)	(5,287)	(2,489)	(4,575)	(15,435)
Net book value	159	508	283	719	1,749
At December 31, 2013					
Cost	2,374	5,795	2,796	5,330	16,295
Accumulated depreciation/amortization	(2,038)	(5,356)	(2,526)	(4,390)	(14,310)
Net book value	336	439	270	940	1,985

Depreciation/amortization expense of $737 (2012 – $768) is included in property and equipment expense within operating expenses in the statement of income (loss) and comprehensive income (loss) (Note 4).

13 Members' Deposits

	2013	2012
Current accounts and demand deposits	119,193	128,863
Money market deposits	583,226	524,853
Statutory liquidity deposits	1,693,744	1,468,925
	2,396,163	2,122,641
Accrued interest payable	2,995	3,778
	2,399,158	2,126,419

Alberta credit unions are required by Alberta Central's bylaws to maintain nine percent of their liabilities in statutory liquidity deposits and common share capital of Alberta Central.

14 Loans and Notes Payable

Alberta Central is authorized to issue commercial paper to a maximum of $250,000. Amounts bear interest at a weighted-average rate of 1.24 percent (2012 – 1.22 percent) and have a weighted average term of 79 days (2012 – 38 days). At December 31, 2013, commercial paper of $24,964 (2012 – $24,983) was issued and outstanding.

Under an agreement with Central 1, effective July 6, 2011, Alberta Central has a line of credit to a maximum of $100,000. Pursuant to the terms of the *Credit Union System Group Clearing Agreement* (Note 20), Alberta Central is obliged to pledge securities to the Bank of Canada with a Bank of Canada collateral value at least equal to one percent of Alberta credit union system assets to secure this line of credit (Note 7). Amounts are due on demand and bear interest at the Bank of Canada overnight rate, or such other rate charged by the Bank of Canada, for Canadian dollar advances. For US dollar advances, amounts bear interest at the rate charged to Central 1 by the correspondent US bank. The total interest paid on the line of credit during the year was $5 (2012 – $44).

15 Common Share Capital

Authorized:

Common shares held by Class A voting members – unlimited number at 5 dollars per share

Common shares held by Class B non-voting members – unlimited number at 5 dollars per share

Issued and outstanding:

Common shares held by Class A voting members – 42,202,733 shares (2012 – 39,440,668)

Common shares held by Class B non-voting members – 253,315 shares (2012 – 416,238)

Common shares are held by Alberta credit unions (Class A members) and other non-credit union organizations (Class B members).

	2013	2012
Common shares held by Class A members:		
Balance, beginning of year	197,204	191,625
Issued, for cash	13,810	5,579
Balance, end of year	211,014	197,204
Common shares held by Class B members:		
Balance, beginning of year	2,081	2,091
Redeemed, at par	(814)	(10)
Balance, end of year	1,267	2,081
Total common shares	212,281	199,285

Alberta Central's bylaws require member credit unions to maintain common share capital in Alberta Central in an amount equal to one percent of each credit union's assets as at the end of the credit union's most recent fiscal year.

Alberta Central's bylaws require that Class B members maintain common shares in Alberta Central, the total par value of which is not less than $100 dollars.

All requests for redemption of common share capital require approval from Alberta Central's board of directors. The redemption price of all common shares is their par value of $5 dollars per share.

16 Dividends

Share Capital

Share capital dividends of $3,957 (2012 – $3,825) were calculated using members' minimum monthly common share capital account balances and the average monthly Canadian prime business rate less one percent. Both Class A and B members are eligible to participate in the receipt of dividends from Alberta Central.

Patronage

Patronage dividends (bonus interest) of $45,000 (2012 – $nil) were calculated based on credit unions' statutory liquidity deposits in Alberta Central.

All dividends require approval from Alberta Central's board of directors.

17 Commitments

Alberta Central is party to a non-cancellable premises lease agreement ending December 31, 2021 which provides a renewal option for a further five years on the same terms and conditions. The future minimum lease payments for base rent under the non-cancellable operating lease are as follows:

One year or less (2014)	1,527
Later than one year and no later than five years (2015-2018)	6,585
Later than five years (2019 and thereafter)	5,142
Total future obligations under premises operating lease to 2021	13,254

Alberta Central's lease payments are recognized as an expense in the year within property and equipment expenses in operating expenses on the statement of income (loss) and comprehensive income (loss) (Note 4).

	2013	2012
Minimum lease payments	1,572	1,575
Contingent rent	1,513	1,599
Total	3,085	3,174

Contingent rent payments on the premises lease are based on a pro rata share of the operating costs of the lease premises, which may increase or decrease annually.

Alberta Central has a non-cancellable premises sublease agreement with Celero ending December 31, 2021 for future minimum lease receipts for base rent totaling $4,102 (2012 – $4,570).

18 Related Party Transactions

Alberta Central has transactions with various related parties throughout the normal course of business. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

a) Transactions with CUPS

During the year, Alberta Central charged CUPS various administrative, property rental, interest and float fees totaling $3,749 (2012 – $3,740). During the year, CUPS charged Alberta Central various interest, distribution and administrative fees totaling $489 (2012 – $518).

CUPS has a line of credit at Alberta Central to a maximum of $10,000, which bears interest at the Canadian prime business rate. At December 31, 2013, CUPS had drawn $nil (2012 – $nil) on the line of credit.

b) Transactions with Celero

During the year, Alberta Central charged Celero $3,109 (2012 – $3,235) for various administrative, accounting and facilities services. Celero charged Alberta Central $1,325 (2012 – $1,052) for information technology services. At December 31, 2013, Alberta Central had a net payable of $4 to Celero (2012 – a net receivable of $94) in respect of operating activities.

Under a Joint Venture Lender Agreement dated December 17, 2007, Celero has a line of credit facility with Alberta Central to a maximum of $22,500 with interest payable monthly at the Canadian prime business rate. The line of credit is payable based on total available cash flow within Celero. Under the terms of the same agreement, Celero also has a $5,000 overdraft facility with Alberta Central bearing interest at the Canadian prime business rate. Alberta Central is the lead lender of the above-noted loan facilities; however, SaskCentral and Manitoba Central, as joint venture partners, share in the provision and

repayment of funds for these facilities in proportion to their ownership interest. At December 31, 2013, Celero had drawn $nil ($1,200) on the line of credit facility and $nil ($nil) on the overdraft facility. The facilities are secured by a *General Security Agreement* over all assets of Celero.

Everlink has entered into agreements with Alberta Central, consisting of a line of credit to a maximum of $2,000 and authorized overdraft facilities to a maximum of $6,375 and US$100. Celero has provided a guarantee on these agreements in proportion to its 49 percent shareholding in Everlink. At December 31, 2013, Everlink had drawn $nil ($nil) against the line of credit or the authorized overdraft facility.

c) Transactions with Servus

As at December 31, 2013, Servus Credit Union Ltd. (Servus) owned 57.4 percent (2012 – 56.4 percent) of the total outstanding common share capital of Alberta Central. Due to the governance structure of Alberta Central, management has determined that Servus has significant influence, but not control, over Alberta Central. The outstanding balances with Servus included in Alberta Central's statement of financial position and statement of income (loss) and comprehensive income (loss) are as follows:

	2013	2012
Loans	120,882	243,234
Members' deposits	959,579	885,893
Membership dues rebate accrual, included in accounts payable and accrued liabilities	268	218
Common share capital	121,359	112,359
Interest income on loans	1,293	453
Interest expense on members' deposits	5,992	8,696
Membership dues and other income	6,895	6,207
Share dividends	2,123	2,115
Patronage dividends	10,532	-

d) Transactions with Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Alberta Central and its proportionate interest in the CUPS joint operation and include 12 (2012 – 10) executive and senior management positions. Their aggregate compensation for the year included:

	2013	2012
Salaries and other short-term employee benefits	2,519	2,315
Post-employment benefits	309	272
Long-term employee benefits	175	250
Termination benefits and retiring allowances	551	
	3,554	2,837

Mortgage loans to key management personnel bear interest at 1.0 percent (2012 – 1.0 percent to 1.54 percent) and are secured by property of the respective borrowers. No impairment losses have been recorded against balances during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel at year-end. The table below presents the outstanding balances and transactions with key management personnel related to mortgage loans:

	2013	2012
Balance, beginning of year	1,028	1,072
Advances	892	480
Repayments	(321)	(524)
Balance, end of year	1,599	1,028

e) Transactions with Directors

	2013	2012
Remuneration paid to directors	246	238
Expenses paid on behalf of directors	101	125
	347	363

Directors are entitled to receive remuneration for participating in Alberta Central and affiliate organization related business. Remuneration to directors ranges from $10 to $33 (2012 – $9 to $45), with an average of $19 (2012 – $18) per annum.

19 Capital Management

Alberta Central's objectives when managing capital are:

- to comply with the capital requirements set by its regulators
- to maintain a strong capital base to support the continued growth and changing circumstances of the credit union system through the development of Alberta Central's business
- to maintain a consistently strong credit rating and investor confidence
- to balance member credit unions' desire for a return on capital with the capital requirements of Alberta Central to fulfill its liquidity mandate

Alberta Central's capital levels are regulated under guidelines issued by the Office of the Superintendent of Financial Institutions (OSFI) and Alberta TBF. These regulations require Alberta Central to maintain a prescribed borrowing multiple, the ratio of borrowings to regulatory capital. Federal regulation (OSFI) requires Alberta Central to maintain a borrowing multiple of 20:1 or less while provincial regulation (Alberta TBF) requires Alberta Central to maintain a borrowing multiple of 15:1 or less.

As an integral component of its capital management, Alberta Central has established internal operating capital targets above the regulatory minimum to ensure it has appropriate

buffers to absorb increases in member deposits or loans and notes payable and/or reductions in its capital. Establishing internal operating capital targets allows Alberta Central to practice prudent capital management.

For the years ended December 31, 2013 and 2012, Alberta Central's capital levels exceeded both regulatory and internal capital requirements. The table below summarizes the composition of regulatory capital:

	2013	2012[1]
Common shares	212,287	199,285
Retained earnings	63,835	78,535
Less:		
Prepaid expenses	682	411
Deferred income tax asset	631	629
Investment in Cetera excluding equity accounted income (loss)	3,779	3,773
Total regulatory capital	271,030	273,007
Excess of total regulatory capital over provincial capital requirements	117,430	128,172

[1] *The regulatory capital calculations at December 31, 2012 above are not reflect changes in IFRS standards effective after 2012 (see note 3(m))*

20 Financial Risk Management

Alberta Central's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Alberta Central's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance.

a) Credit Risk

Alberta Central takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for Alberta Central by failing to discharge an obligation. Credit exposures arise from investment activities that bring debt securities and derivatives into Alberta Central's securities and derivatives portfolios, lending activities that lead to loans, and deposits held with third party financial institutions. Alberta Central is party to financial instruments with off-balance sheet credit risk that, in the normal course of operations, are used to meet its own and its credit union members' financial needs. These instruments include commitments to extend credit, standby letters of credit and financial guarantees. The average term of commitments is one year. In the normal course of operations, these commitments may expire without being utilized.

Alberta Central's maximum exposure to credit risk, including undrawn commitments, without taking account of any collateral held or other credit enhancements is:

	2013	2012
Cash at other financial institutions	67,744	87,873
Securities	2,178,699	1,928,770
Derivatives	8,827	10,805
Accounts receivable and other assets	2,608	4,864
Loans outstanding and undrawn commitments	1,617,453	1,645,894
Standby letters of credit and financial guarantees	5,674	10,948
	3,877,004	3,689,154

Alberta Central, as the manager of the Alberta credit union system liquidity pool, is responsible to develop an earning asset base while providing for borrowing needs of Alberta credit unions and their members. Alberta Central manages credit exposure on investment activities by adhering to an *Investment Policy* which identifies a basic standard of investment quality. There have been no significant changes in credit risk in securities from the prior year.

Alberta Central's lending function focuses on the provision of loans to member credit unions and is closely integrated and coordinated with Alberta Central's liquidity management role. In addition, all of Alberta Central's commercial lending is provided on a syndicated basis with credit unions. Alberta Central or an individual credit union may be positioned as the lead lender for any commercial loan. Approval for all syndicated loans over $1,000 is obtained from the Credit Union Deposit Guarantee Corporation (CUDGC). Alberta Central's credit risk exposure related to its commercial lending function is mitigated where it is not the lead lender, as management performs its own monitoring of its commercial loan portfolio. In addition, total commercial loans, leases, guarantees, interests in pooling funds, other loans held and guarantees given by Alberta Central shall not exceed 150 percent of Alberta Central's members' equity as at the end of the previous fiscal year.

Alberta Central structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers. Such risks are subject to an annual or more frequent review by management, when considered necessary.

Alberta Central employs and is committed to a number of important principles to manage credit exposures, which include:

- a board approved *Lending Policy*
- a management Credit Committee whose duties include review of lending policies and approval of larger credits
- delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process, a defined approval process for loans in excess of those limits and the review of larger credits by senior management personnel prior to recommendation to the management Credit Committee
- use of a credit risk classification system, which assigns a risk rating from 1 to 9, where 1 is excellent risk and 9 is impaired risk – non-performing, to all syndicated commercial loans that are reviewed on a regular basis
- employment of personnel engaged in credit granting who are qualified and experienced in lending

- lending policies which are communicated to employees whose activities and responsibilities include credit granting and risk assessment
- annual reviews of loans
- independent reviews by Alberta Central's internal audit group, which includes reporting the results to the management Credit Committee and Alberta Central's Audit and Finance Committee

The following tables show Alberta Central's maximum lending exposure to credit risk, by industry and by portfolio, without taking account of any collateral held or other credit enhancements. Alberta Central's commercial loans and mortgages credit portfolio is 98.0 percent (2012 – 97.5 percent) concentrated in Alberta.

Credit Risk Exposure by Industry

			2013	2012
	Outstanding	Undrawn commitments	Total exposure	Total exposure
Finance and insurance	152,685	1,241,676	1,394,262	1,389,280
Office	43,298	170	43,968	35,067
Hospitality	40,267	–	40,267	39,984
Retail	4,193	22,526	26,719	23,669
Health care	22,448	–	22,448	25,282
Condominium construction	21,661	–	21,661	25,842
Land development	20,500	–	20,500	20,500
Technology	8,396	15,667	20,063	46,977
Apartment rental	9,600	–	9,600	10,061
Real estate – other	9,616	–	9,616	23,848
Industrial/warehouse	3,769	–	3,769	7,364
	337,414	1,280,039	1,613,453	1,645,894

Credit Risk Exposure by Portfolio

			2013	2012
	Outstanding	Undrawn commitments	Total exposure	Total exposure
Credit unions	145,171	1,238,676	1,383,847	1,381,214
Commercial loans and mortgages	179,813	11,520	191,257	217,346
Celero	8,396	15,667	20,063	20,977
Cooperatives	2,027	17,076	19,903	24,422
Employee mortgages	2,383	–	2,383	1,935
	337,414	1,280,039	1,613,453	1,645,894

Collateral for the lending portfolio generally is as follows:

- credit unions: general security agreements with eleven of the largest credit unions and from the remainder of the credit unions a security agreement over their accounts and instruments
- commercial loans and mortgages: secured primarily by real estate, as well as a personal or corporate guarantee, with a loan to value ratio of less than 75 percent at origination of the loan
- cooperatives: secured by real estate
- Celero: general security agreement
- employee mortgages: secured by the residence

Alberta Central considers all loans two months or more in arrears to be non-performing. At December 31, 2013 there was one loan in the amount of $514 (2012 – one loan in the amount of $1,091) that was non-performing but not impaired.

The credit quality of the securities can be assessed by reference to the rating system of DBRS, Moody's Corporation or Standard & Poor's Corporation. Alberta Central's *Investment Policy* states that the statutory investments held must be rated at least R-1 or P-1 for commercial paper and A for bonds. The credit risk related to equity investments in affiliates and cooperatives is limited as the *Credit Union Act of Alberta* restricts Alberta Central's investment in such entities to ten percent of members' equity without prior approval from Alberta TBI.

Alberta Central enters into various derivative contracts in the normal course of its business, including interest rate swaps, call options, index options and foreign exchange forwards. The instruments are used to meet the needs of member credit unions. Other than credit risk, Alberta Central does not accept any net market risk exposure to derivative contracts entered into on behalf of member credit unions as it enters into offsetting contracts with other financial institution counterparties. Derivative assets and liabilities are marked to market with net changes in value recorded in net income (loss). All non-credit union derivative counterparties are with major Canadian financial institutions rated AA or higher. Under its *Investment Policy*, Alberta Central has established trading limits for each institution.

The following table shows details of Alberta Central's derivative financial instruments:

Favourable Contracts

			2013	2012
	Notional Amount	Fair Value	Notional exposure	Fair Value
Interest rate swaps	60,000	1,277	161,869	2,913
Index options	129,562	7,810	120,955	7,892
	189,562	9,087	282,824	10,805

Unfavourable Contracts

	2013			2012
	Notional Amount	Fair Value	Notional exposure	Fair Value
Interest rate swaps	60,000	1,277	161,869	2,913
Index options	129,562	7,610	120,955	7,892
	189,562	8,887	282,824	10,805

The weighted-average interest rate paid on interest rate swaps with credit unions was 2.23 percent (2012 – 1.97 percent). The weighted-average interest rate received on interest rate swaps with credit unions was 2.91 percent (2012 – 3.49 percent). The net exposure is offset through interest rate swaps entered into with other financial institution counterparties.

Alberta Central is party to a *Credit Support Annex*, which requires Alberta Central to pledge cash to the extent that the net value of swaps with a certain major Canadian financial institution decreases below a specified level. Cash and cash equivalents on the statement of financial position includes $nil (2012 – $770) of cash pledged with the financial institution.

b) Liquidity Risk

Liquidity risk is the risk that Alberta Central will encounter difficulty in meeting obligations associated with financial liabilities when they fall due. To mitigate this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. Alberta Central's sources of funding are deposits from member credit unions, its commercial paper program and a line of credit with Central 1.

The majority of deposits from member credit unions are required by regulation as Alberta Central is the prescribed liquidity manager for Alberta's credit unions. Alberta Central's bylaws require Alberta credit unions to maintain a minimum of one percent of their assets as share capital in Alberta Central. Credit unions are also required to maintain liquidity deposits at Alberta Central such that the total liquidity deposits and share capital with Alberta Central comprise nine percent of the credit union's liabilities.

As discussed in Note 14, Alberta Central, Central 1 and the credit union centrals of Manitoba and Saskatchewan are parties to a group clearing arrangement under the terms of the *Credit Union System Group Clearing Agreement*. The participating centrals also entered into the *Inter-Central Liquidity Agreement*, which provides emergency liquidity to a participating central in the form of a loan through a multi-lateral credit facility, whereby Alberta Central has committed $400,000. Under the terms of the *Inter-Central Liquidity Agreement*, Alberta Central is required to maintain a minimum of six percent of its provincial system's assets in certain qualifying liquid assets.

Provincial legislation also requires Alberta Central to maintain six percent of Alberta credit union system assets in government securities or certain other qualifying liquid assets maturing within one year. One third of this amount must mature within

90 days. The required balance in qualifying liquid assets under the *Inter-Central Liquidity Agreement* and provincial legislation at December 31, 2013 was $1,317,266 (2012 – $1,223,691). Alberta Central's liquidity reserves, when measured by year-end balances, were in excess of the requirements under the *Inter-Central Liquidity Agreement* and those under provincial legislation.

Contractual maturities for financial liabilities are shown in the table below:

	Within 3 months	From 3 months to 1 year	From 1 to 5 years	Greater than 5 years	Total
Members' deposits	1,959,598	291,970	23,562	–	2,275,130
Loans and notes payable	24,964	–	–	–	24,964
Derivative financial liabilities	3,819	217	4,451	–	8,487
Other liabilities	5,601	–	–	–	5,601
December 31, 2012	1,994,182	291,287	28,413	–	2,313,882
December 31, 2012	1,850,253	329,797	8,667	–	2,188,717

c) Market Risk

Market risk is comprised of three types of risk: foreign exchange risk, interest rate risk and other price risk.

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risks exist mainly as a result of the existence of financial assets, derivatives and financial liabilities denominated in foreign currencies. The risk associated with changing foreign currency values is managed under Alberta Central's Investment Policy, which limits net exposures that can be maintained in various currencies. Alberta Central is not exposed to significant foreign exchange risk.

Interest Rate Risk

Interest rate risk is the risk that net interest income will be adversely impacted by changes in market interest rates. This risk occurs as a result of disparity in the re-pricing dates and basis (e.g., the benchmark interest rate) of interest rate sensitive financial assets, derivatives and financial liabilities. Alberta Central uses simulation modeling to monitor and manage interest rate risk. It also uses gap analysis to assess interest rate risk by measuring the difference between the amount of financial assets and financial liabilities that re-price in a particular time period.

Alberta Central's interest rate sensitivity position at December 31, 2013, as presented in the following tables, is based upon the contractual re-pricing and maturity dates of assets and liabilities. The table shows the cumulative gaps at various intervals. As Alberta Central's holdings of ABCP were converted to floating rate notes (Note 7), the related assets have been grouped in the 'within three months' category, as the interest rates re-price during that time period.

	Within 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Non-interest sensitive[1]	Total
Assets						
Cash and cash equivalents	55,762	–	–	–	12,220	67,982
Securities	1,649,808	427,971	901,367	–	(4,627)	2,374,699
Loans	185,495	39,996	106,602	5,121	(14,993)	322,421
Derivative financial assets	2,319	213	4,851	–	–	7,383
Other assets	–	–	–	–	15,367	15,367
	1,893,384	468,180	212,808	5,121	8,967	2,591,266
Weighted average interest rate	1.16%	1.22%	2.19%	4.12%	–	1.36%
Liabilities and Members' Equity						
Members' deposits	1,943,788	291,970	23,552	–	15,810	2,274,270
Loans and notes payable	24,964	–	–	–	32	24,964
Other liabilities	–	–	–	–	5,801	5,801
Derivative financial liabilities	2,319	213	4,851	–	–	7,383
Members' equity	212,231	–	–	–	65,202	277,434
	2,184,570	292,183	28,403	–	86,846	2,591,266
Weighted average interest rate	0.98%	1.05%	1.44%	–	–	0.96%
Total interest rate sensitivity gap	(291,186)	175,997	184,405	5,121	(77,879)	–
Cumulative interest rate sensitivity gap:						
December 31, 2013	(291,186)	(115,189)	69,216	74,337	–	–
December 31, 2012	(158,103)	30,453	115,673	130,891	–	–

[1] Amounts are fair value adjustments for securities in cash flow hedging relationships.

The following represents Alberta Central's interest rate risk position:

	2013	2012
Impact on members' equity from:		
Increase in interest rates of 100 basis points	(5,124)	(3,170)
Increase in interest rates of 200 basis points	(10,122)	(6,235)
Decrease in interest rates of 100 basis points	4,591	4,391
Decrease in interest rates of 200 basis points	9,409	8,961

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument, including derivatives, will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Alberta Central's most significant other price risk relates to its holdings of ABCP (Note 7). Alberta Central manages its other price risk by adhering to an *Investment Policy*.

21 Fair Value of Financial Instruments

The fair value of Alberta Central's financial instruments is determined as follows:

- ABCP – determined based on broker bid prices as described in Note 7
- floating rate notes and bonds – based on broker quoted market prices
- commercial paper, bankers' acceptances and bearer deposit notes – based on discounted cash flow model using market interest rates or prices for similar instruments (interest rate curve)
- treasury bills – based on discounted cash flow model using treasury bill interest rates (T-bill curve)
- loans receivable, members' deposits, and loans and notes payable – based on discounted cash flow model using market interest rates for similar instruments
- derivative financial instruments – based on recent market transactions for similar derivative instruments or if recent market transactions are not available, based on discounted cash flow model

The fair value of certain unquoted equity securities classified as available-for-sale securities cannot be reliably measured because trading is restricted, no market exists and they are issued by CUCC or other co-operative entities, or prices from recent market transactions are not available. Therefore, fair value information has not been disclosed and these securities are carried at their cost of $1,417 (2012 – $1,402). Alberta Central holds one available-for-sale equity security in a co-operative enterprise which does not have a quoted market price in an active market; however, it is recorded at its fair value of $4,310 (2012 – $4,310) based upon the most recent transaction. Alberta Central has no plans to dispose of these securities as of the year-end.

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and loans and notes payable approximates their carrying value due to their short-term nature.

The fair value and related carrying value of all financial instruments, excluding those whose fair value and carrying value are the same or are presented at fair value in the financial statements, have been summarized below:

	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans	$321,421	$324,837	$425,697	$429,153
Held-to-maturity securities	–	–	14,968	20,090
Financial liabilities				
Members' deposits	$2,274,270	$2,274,945	$2,142,455	$2,142,587

Financial instruments measured at fair value on the statement of financial position must be classified within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly
- Level 3 – Inputs that are not based on observable market data

Financial assets at fair value at December 31:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$9,932			$9,932
Securities				
Held for trading		297,354		$297,354
Available-for-sale		1,840,076		$1,840,076
Derivative financial assets		5,343		$5,343
December 31, 2013	$9,932	$2,142,773		$2,152,705
December 31, 2012	$9,349	$1,908,399		$1,917,748

Financial liabilities at fair value at December 31:

	Level 1	Level 2	Level 3	Total
Derivative financial liabilities		$7,855		$7,855
December 31, 2012		$7,865		$7,865

22 Events After the Reporting Date

On February 21, 2014, Alberta Central's board of directors declared a share capital dividend to members of approximately $4,200 for payment on March 14, 2014. The board also declared a patronage distribution of $10,000 to Alberta credit unions for payment on March 14, 2014.

CORPORATE GOVERNANCE

Board of Directors

Alberta Central's board is comprised of thirteen directors who represent four credit union regions. Two of the regions are determined geographically (North and South) and two regions are comprised of the largest credit unions in Alberta (Servus and First Calgary Financial).

Director Entitlement

Region A: 5
Servus

Region B: 2
First Calgary Financial

North Region: 3
Battle River, Bonnyville, Christian, Eckville, Edson, Grande Prairie, Lakeland, River City, Rocky, S.G.E., Veterans, Vermilion, Wainwright, Wetaskiwin

South Region: 3
1st Choice, Bow Valley, Calgary Police, Canada Safeway, CHEC, Chinook, City Plus, Inglewood, Khalsa, Legacy Savings, Lethbridge Legacy, Mountain View, Prairie, Pincher Creek, Shell, Stanco, Transcanada

Director Roles and Responsibilities

The board of directors is responsible for the stewardship of Alberta Central, this includes defining Alberta Central's risk appetite, setting the strategy and overseeing its planning process and the general oversight of management and the operations of Alberta Central. The roles and responsibilities of Alberta Central's board and the president and chief executive officer are outlined in Alberta Central's corporate policies, bylaws and terms of reference for each board standing committee.

Board Committees

Alberta Central's board has standing committees responsible for both legislated and delegated functions. The committees are comprised of Alberta Central directors, and management acts as resources for the committees. Each committee meets regularly throughout the year and is required to provide timely and regular reports to the board of directors.

The chairs of each committee are elected by the directors of the respective committees. The chair of the board is a voting ex-officio member of all of the board standing committees.

Governance Committee

The Governance Committee is comprised of six directors. The committee has oversight responsibility for Alberta Central's corporate policies and governance practices. Every two years, the committee ensures that board standing committees' terms of reference, Alberta Central's board remuneration policy and Alberta Central's other corporate policies are reviewed and updated as required. The Governance Committee also ensures that a board self-assessment process is conducted every year in order to maximize the effective functioning and performance of the board, and is responsible for making recommendations to the board to address any issues identified through the self-assessment process. This committee remains informed of best practices in corporate governance and makes recommendations to the board to continually improve Alberta Central's governance practices. The Governance Committee manages the performance review process and compensation of the president and chief executive officer on an annual basis. In 2013 Alberta Central implemented a Whistleblower Policy that is intended to encourage and enable employees to raise concerns regarding serious instances of unethical behaviour.

Audit and Finance Committee

The Audit and Finance Committee is comprised of six directors. The committee has oversight and responsibility for the *Investment Policy*, *Lending Policy*, *Enterprise Risk Management Policy*, *Capital Policy*, *Stress Testing Policy*, *Internal Audit Policy* and *External Audit Policy* and provides oversight of Alberta Central's internal audit function. The committee meets directly with, and reviews reports prepared by, internal and external auditors (as required), and ensures compliance with Alberta Central's bylaws and financial policies. The committee is also responsible for reviewing and recommending to the board the audit mandate and annual audit plan, as well as Alberta Central's financial, risk management and treasury reports, and the annual budget.

Conduct Review Committee

The Conduct Review Committee is comprised of the same six directors as the Audit and Finance Committee, and the chair of the committee is the same as that of the Audit and Finance Committee. The committee was established to provide oversight and responsibility for managing compliance with the related party transaction requirements of the *Cooperative Credit Associations Act* (CCAA). All related party transactions of board members and executive

management are reviewed by the Conduct Review Committee, which is responsible for reporting any violation of related party rules to OSFI.

Internal Controls

Alberta Central's internal audit team, under the direction of the board's Audit and Finance Committee, periodically assesses the effectiveness of internal control procedures. As part of Alberta Central's regulatory compliance self-assessment procedures, an independent audit of compliance reports prepared by Alberta Central's chief compliance officer is reviewed on an annual basis. The findings and recommendations of the internal audit team are reported to Alberta Central management and the Audit and Finance Committee to ensure appropriate internal controls are in place, and continued compliance with applicable regulatory requirements.

Risk Management

To effectively manage risk, the board has established an *Enterprise Risk Management Policy*, *Lending Policy*, *Investment Policy* and *Stress Testing Policy*. The Audit and Finance Committee reviews and makes recommendations to the board of directors on these policies. The *Investment Policy* provides for an ALCO comprised of management, which meets on a quarterly basis to formally review Alberta Central's investment and lending portfolio management and compliance to policy. A Management Risk Committee, comprised of the executive management team, regularly assesses the key risks Alberta Central faces and updates the board on its risk assessment. A Management Credit Committee, comprised of certain members of the executive management team and other senior management personnel, regularly assesses the loan portfolio of Alberta Central and approves all loan applications within the board approved lending limits and risk appetite.

Conduct and Accountability

Alberta Central has policies and procedures that promote professional and ethical behaviour and, in addition, has implemented a Code of Conduct which outlines the standards of conduct to which employees and directors must adhere in performing their duties for the organization. On an annual basis, Alberta Central's employees are required to review and certify their understanding of and compliance with the specified business conduct policies. Alberta Central's directors annually complete an oath of office and conflict of interest declaration, which outlines their obligations with respect to the Code of Conduct, confidentiality of Alberta Central business matters, and related party transaction rules.

Disclosure of Governance Practices

Developments in corporate governance in Canada for public companies require a full disclosure of corporate governance practices, and the Ontario Securities Commission has published a disclosure guideline specific to this requirement. In accordance with the developments in corporate governance best practices, Alberta Central now discloses its governance practices in its annual report.

Board Independence

Alberta Central's board is comprised entirely of independent, non-employee directors. In furthering the independence of its directors, Alberta Central's board meets independently of management as part of every scheduled meeting. The board also meets with the external auditor, without management present, at least annually and the internal audit function also has direct access to the board's Audit and Finance Committee. The board may independently engage outside professional advisors and is empowered to do so by Alberta Central's bylaws.

Board Self-Assessment
The board conducts an annual self-assessment process to evaluate its effectiveness as a whole. Alberta Central's executive management team participates in the board assessment process (at the invitation of the board) to provide input and recommendations on board effectiveness and process. The board also conducts a director skills self-assessment and peer assessment as part of this process. The data received from this report is used by the Governance Committee to discuss skill gaps in the board and assist the committee in making recommendations with respect to board recruitment and development processes. The feedback is also used by individual directors in planning their professional development activities.

Director Remuneration
Directors receive remuneration in the form of monthly honoraria, per diem fees for attendance at board meetings and compensation for travel time and expenses. The total remuneration and expenses paid to Alberta Central directors is disclosed in note 18, Related Party Transactions.

Director Orientation and Development
All directors participate in an orientation session upon appointment to the board to assist them in carrying out their roles and responsibilities as directors. Each director is provided with the opportunity and budget to attend courses, seminars and conferences of their choice for professional development activities relevant to their role on Alberta Central's board.

BOARD OF DIRECTORS

Alison Starke
Board Chair,
Region A

Perry Dooley
Region A

Ian Glassford
Region A

Dan Bruinooge
Region A

Ken Morris
North Region

Jon Holt
Region A

Paul Kelly
First Vice Chair,
Region B

Bob Petryk
Region B

Maurice Landry
Second Vice Chair,
South Region

Garth Yeomans
Secretary,
North Region

Bert Horvey
North Region

John Richter
South Region

John Stutz
South Region

MANAGEMENT TEAM

Graham Wetter
President and CEO

Duane Blahun
Chief Strategy and Member Engagement Officer

Susan Borrows
Chief People and Culture Officer

Steve Dunn
Chief Technology and Payments Officer

Anne Gillespie
Chief Financial and Risk Officer

Sean Lesy
Chief Investment Officer

Kate Shaughnessy
Chief Governance and Compliance Officer

Arnab Biswas
Director, Regulatory Compliance

Jodi Chambers
Director, Project and Process Improvement

Monique Côté
Controller, Alberta Central

Peter Davis
Director, Government Relations

Roger Dery
Director, Technology and Innovation

Pat Dolan
Director, Treasury

Greg Feniak
Director, Relationship Management

Alexandra Frison
Director, Communications

Chris Laxton
Director, Risk Management and Audit Services

Debbie Palmer
Controller, CUPS

Shannon Rennie
Director and Corporate Counsel

Michael Simonson
Director, Lending and Banking Support Services

Francine Soko
Director, Operations

Richard Ward
Controller, Celero

Leslie Warner
Director, Strategy, Planning and Support

AlbertaCentral